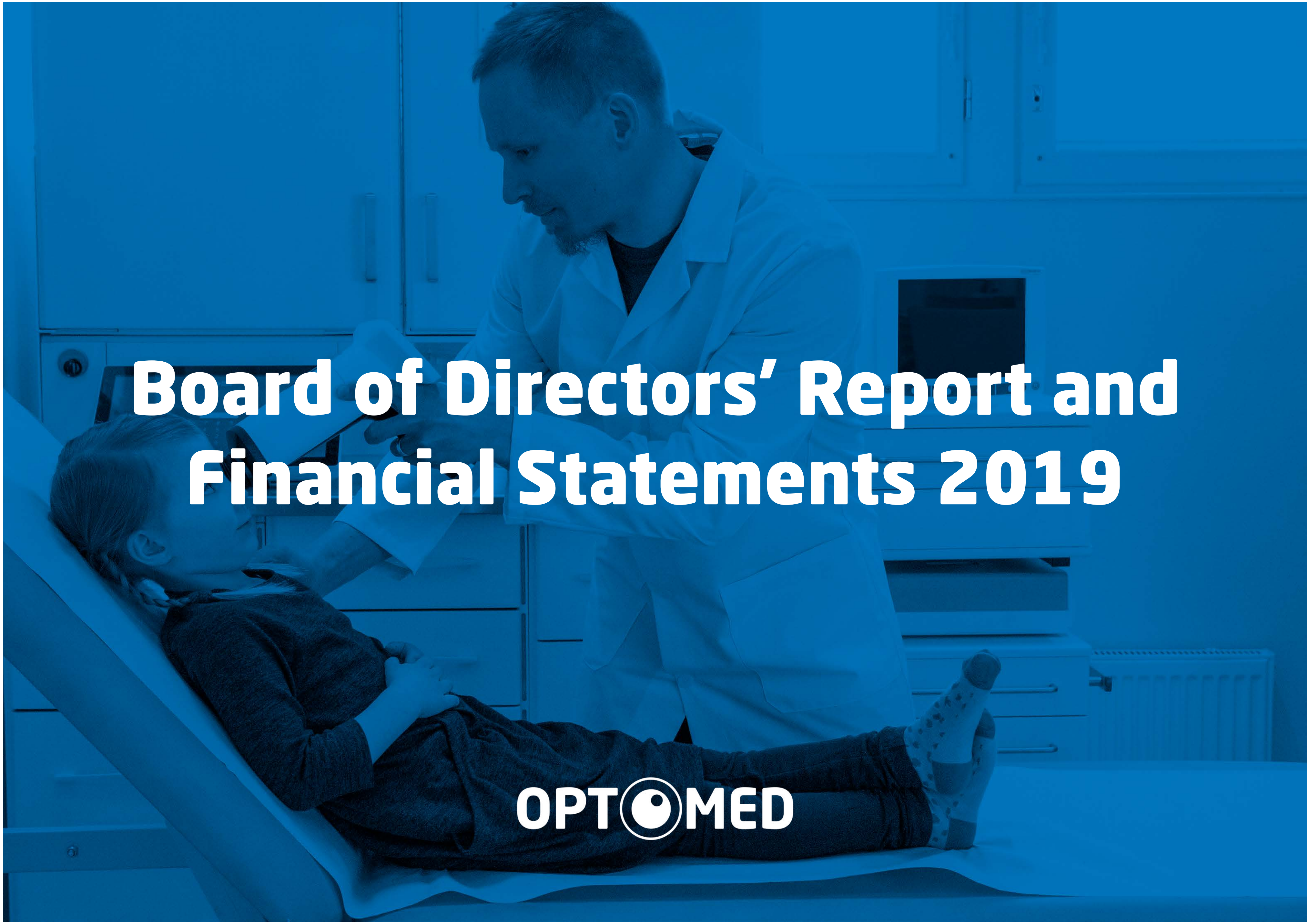


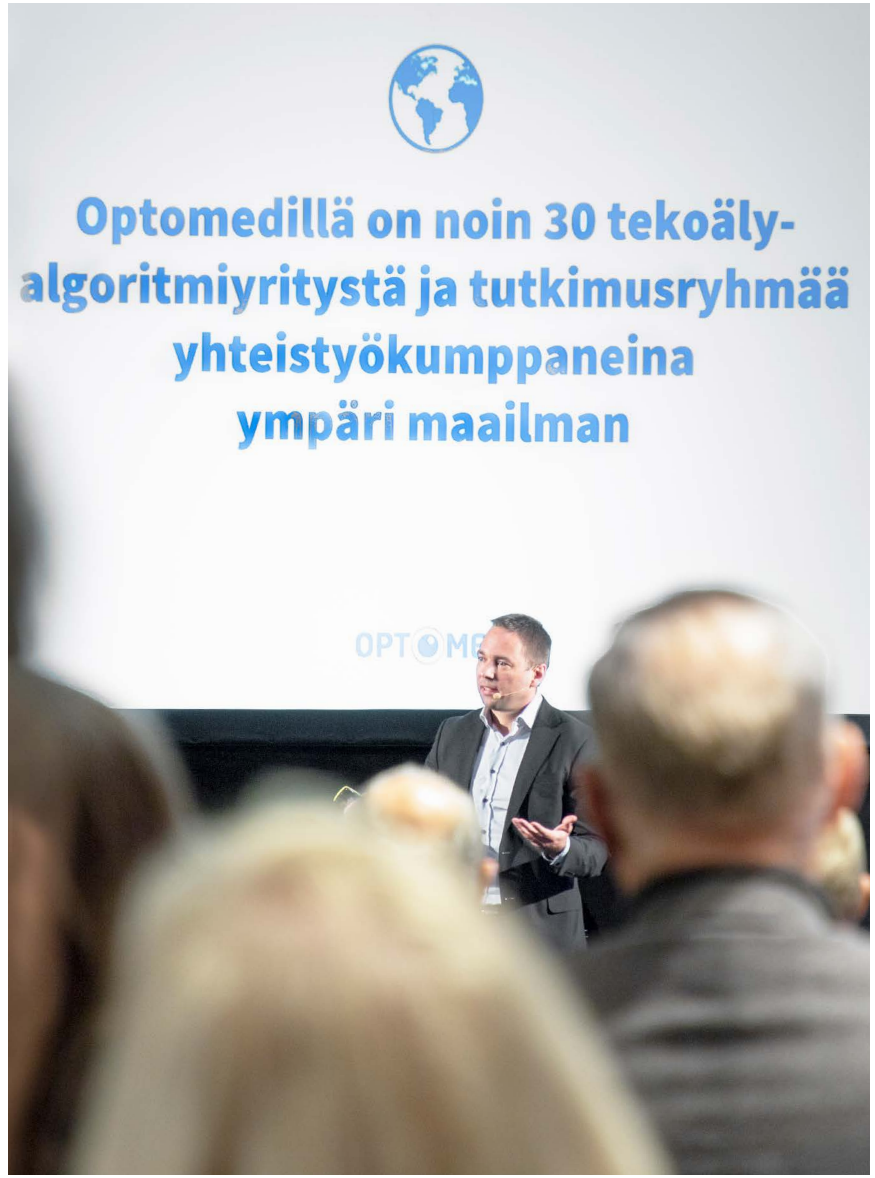
Board of Directors' Report and Financial Statements 2019

OPTOMED

Board of Directors' Report

Optomed in brief

Optomed is a Finnish medical technology company and a leading supplier of handheld fundus cameras. Optomed combines handheld cameras with software and artificial intelligence with the aim to transform the diagnostic process of blinding eye-diseases such as rapidly increasing diabetic retinopathy. In its business Optomed focuses on eye-screening devices and software solutions related R&D in Finland and sales through different channels in over 60 countries. The company has an extensive portfolio of 55 international patents protecting the technology. In 2019, Optomed's revenue reached EUR 15.0 million and in 2018 pro forma revenue amounted to EUR 14.5 million. At the end of 2019, Optomed employed 108 professionals.



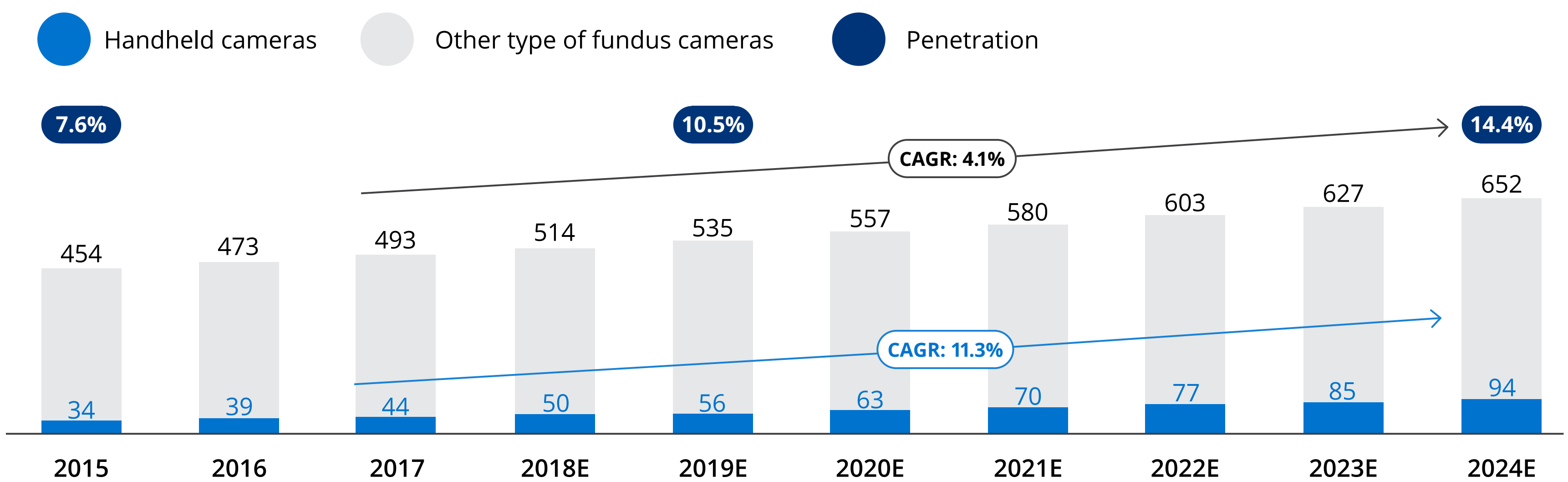
Operating Environment

Optomed is a leading provider of non-mydriatic handheld cameras.

The global handheld fundus camera market was estimated to amount to USD 34 million in 2015, corresponding to a penetration of approximately 7.6 percent. This penetration is expected to increase to approximately 10.5 percent in 2019 and to further increase to 14.4 percent in 2024. The handheld fundus camera market can be split between non-mydriatic and mydriatic handheld cameras, with non-mydriatic cameras accounting for approximately 91 percent of the total market. In 2019, the largest geographical region in the handheld fundus camera segment in 2019 is estimated to be the North America region with a share of approximately 46 percent, followed by the Asia-Pacific region with a share of 26 percent, Europe with a share of 24 percent, Latin America with a share of three percent and Middle East & Africa with a share of one percent[2].

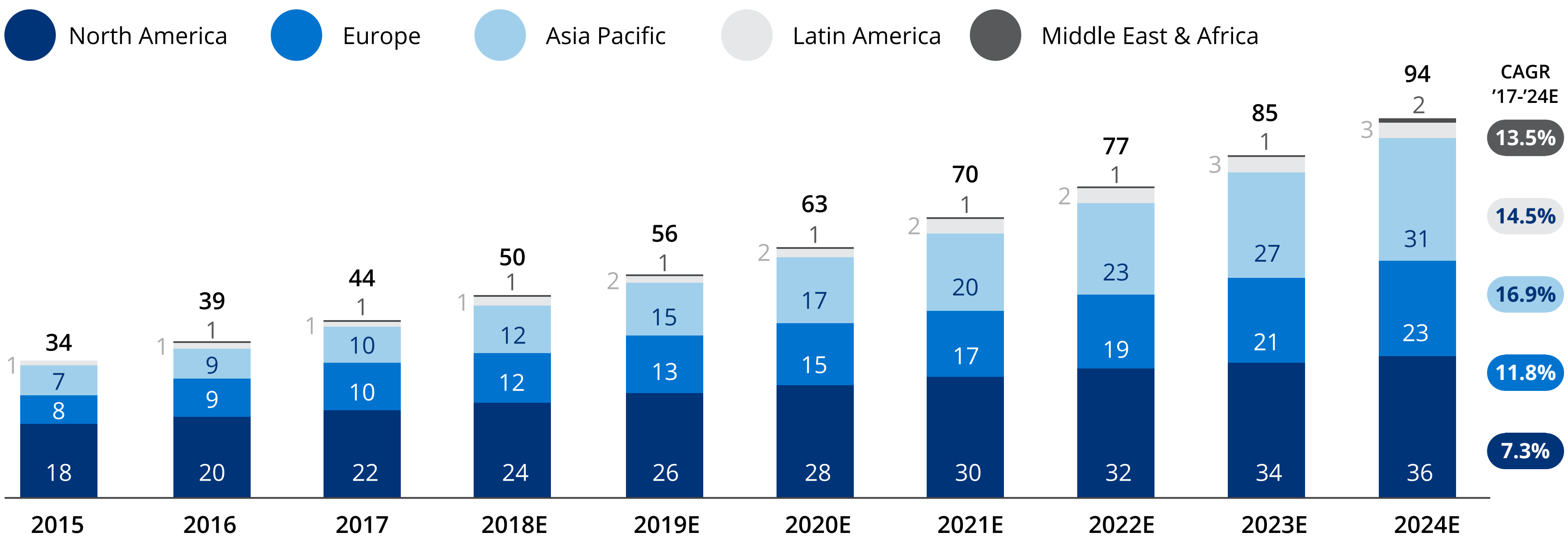
In the handheld fundus camera segment, the highest growth is estimated to stem from the Asia-Pacific region, where the annual market growth is expected to be approximately 17 percent between 2017 and 2024[3]. The Company's management believes that the increas-

Global fundus camera market measured by revenue (USD million)



ing number of people suffering from diabetes and the increasing awareness of the complications and costs resulting from blindness are among the most important drivers for growth in the handheld camera market. Additionally, management also believes that the relatively small installed base of desktop fundus cameras results in increased use of new technology and in particular handheld cameras[4]. High growth rates are also expected in the Latin America and Middle East & Africa regions, mainly due to increasing economic growth and growing healthcare expenditure[5]. The European market is estimated to grow at a rate of approximately 11.8 percent per year, and the growth is driven by the adoption of the device amongst general practitioners and healthcare professionals other than those specializing in eye diseases. Handheld fundus cameras have traditionally been used by ophthalmologists offering remote consultation, however, as handheld fundus cameras have become more common, other medical professionals have also begun to consider them as space-saving and cost-effective alternatives to desktop fundus cameras[6]. The figure below illustrates the regional market sizes and growth rates.

[1] Zion Market Research (2018). [2] Zion Market Research (2018). [3] Zion Market Research (2018). [4] Company estimate. [5] Zion Market Research (2018).
[6] Data Research: European Market Report for Fundus Cameras (2016).



Revenue, Profitability and Result

Group summary - Key figures and APM's

Optomed uses certain alternative performance measures (APMs) with the purpose to provide a better understanding of how the business develops. These APMs, as defined, cannot be fully compared with other companies' APMs.

EUR, thousand	2019	Pro forma, 2018	Change, %	2017
Revenue	14,977	14,463	3.6%	6,899
Gross profit *	9,944	10,398	-4.4%	4,069
Gross margin % *	66.4%	71.9%		59.0%
EBITDA	-335	1,188	-128.2%	-1,784
EBITDA margin *, %	-2.2%	8.2%		-25.9%
Adjusted EBITDA *	-196	1,661	-111.8%	-1,784
Adjusted EBITDA margin *, %	-1.3%	11.5%		-25.9%
Operating result (EBIT)	-2,596	-664	-291.0%	-2,828
Operating margit (EBIT) *, %	-17.3%	-4.6%		-41.0%
Adjusted operating result (EBIT) *	-2,457	-338	-625.8%	-2 ,828
Adjusted operating margin (EBIT margin) *, %	-16.4%	-2.3%		-41.0%
Net profit/ loss	-2,875	-1,327	-116.7%	-2,887
Earnings per share	-0.32	-0.17	-90.4%	-0,43
Cash flow from operating activities	161	-76	311.8%	4 500
Net debt	8,938	8,207	-208.9%	-2.5
Net debt/ Adjusted EBITDA (LTM)	45.7	4.9		11.8%
Equity ratio *	57.2%	24.0%		
R&D expenses personnel	1,245	1,369	37.9%	468
R&D expenses other costs	529	188	276.9%	332
Total R&D expenses	1,774	1,557	131.9%	800

) Alternative performance measures, see section Alternative Performance Measures for definitions and calculations.

Revenue increased by 3.6 percent to EUR 14,977 (14,463, pro forma) thousand for the full year 2019. The revenue of the Devices segment decreased 2.0 percent driven by the orders of a Chinese customer postponed until the second half of 2020. Software segment performed well and grew 9.5 percent, mainly due to the good performance of the healthcare sector.

EBITDA amounted to EUR -335 (1,188) thousand and adjusted EBITDA totaled EUR -196 (1,661) thousand. Adjusted EBITDA was positively affected by the IPO related expenses of EUR 139 (135). In 2018, the adjusted EBITDA was also affected by Commit; Oy acquisition related expenses of EUR 191 thousand.

EBIT was EUR -2,596 (-664) and adjusted EBIT was EUR -2,457 (-338) thousand. The IPO and acquisition related expenses are classified as items affecting comparability. Net profit was -2,875 (-1,327).

Net financial items amounted to EUR -356 (-555) thousand. Net loss per share was EUR 0.32 (0.17).

Financial summary per segment

Devices segment

Optomed has two synergistic business segments: Devices and Software. The Devices segment develops, commercializes and manufactures easy-to-use and affordable handheld fundus cameras, that are suitable for any clinic for screening of various eye diseases, such as diabetic retinopathy, glaucoma and AMD (Age Related Macular Degeneration).

EUR, thousand	2019	2018	Change, %
Revenue	7,309	7,460	-2.0%
Gross profit *	4,200	5,053	-16.9%
Gross margin *, %	57.5%	67.7%	
EBITDA	-408	221	-284.6%
EBITDA margin *, %	-5.6%	3.0 %	
Operating result (EBIT)	-1,913	-1,323	-44.5%
Operating margin (EBIT) *, %	-26.2%	-17.7 %	

) Alternative performance measures, see section Alternative Performance Measures for definitions and calculations

EUR, thousand	2019	2018	Change, %
Revenue by channel	7,309	7,460	-2.0%
- Distributors	1,662	1,370	21.3%
- OEM	3,373	2,964	13.8%
- China	1,795	2,686	-33.2%
- Other	479	440	8.9%

In January–December 2019, the Devices segment revenue decreased 2.0 percent and was EUR 7,309 (7,460) thousand. The gross margin decreased from 67.7% to 57.5% percent and EBITDA was EUR -408 (221) thousand or –5.6 (3.0) percent of revenue. In 2018 the company received government grants of EUR 881 thousand, which increased the gross margin of the comparison period compared to EUR 254 thousand in 2019.

The weakened financial performance was mainly due to a postponed order in China.

Software segment

Optomed has two synergistic business segments: Devices and Software. The Software segment develops and commercializes screening software for diabetic retinopathy and cancer screening for healthcare organizations. The segment also distributes off-the-shelf products from selected partners to supplement its own solutions and expertise and provides software consultation to support the Devices segment screening solution projects.

EUR, thousand	2019	Pro forma, 2018	Change, %
Revenue	7,668	7,001	9,5%
Gross profit *	5,744	5,344	7,5%
Gross margin *, %	74.9%	76.3%	
EBITDA	1,667	1,112	49.9%
EBITDA margin *, %	21.7%	15.9%	
Operating result (EBIT)	910	660	37.9%
Operating margin (EBIT) *, %	11.9%	9.4%	

) Alternative performance measures, see section Alternative Performance Measures for definitions and calculations.

The Software segment's revenue increased 9.5 percent and was EUR 7,668 (7,001) thousand. The gross margin decreased from 76.3 percent to 74.9 percent. EBITDA was EUR 1,667 (1,112) thousand or 21.7 (15.9) percent of revenue.

Software segment performance was driven by successful delivery of new software solution projects and maintenance and support services as well as growth in recurring license sales to various healthcare organizations.

Group-wide expenses

Group-wide expenses consist of functions supporting the entire group such as treasury, group accounting, legal, HR and IT as well as public listing expenses.

Group-wide operating expenses amounted to EUR 488 thousand. Group-wide expenses include EUR 139 (135) thousand of IPO related expenses for the full year 2019. For the financial year 2018, Group-wide expenses included Commit; Oy acquisition related expenses of EUR 191 thousand. The acquisition and IPO related expenses are classified as items affecting comparability.

Total IPO related fees and expenses amounted to EUR 4,208 in total, of which EUR 139 thousand was affecting the profitability and the remaining EUR 4,069 thousand was booked to equity.

Organic Growth

The following table shows the organic growth of the group and the segments. The adjusted elements are related to the acquisition of Commit; Oy executed in the first quarter of 2018 and exchange rate variances between EUR and Chinese RMB. Commit; Oy forms today the foundation of the Software segment.

Organic Growth, percent	2019	2018
Devices segment *	-2.4%	8.0%
Software segment *	6.9%	NA
Group *	1.5%	8.0%

) Alternative performance measures, see section Alternative Performance Measures for definitions and calculations.

Balance sheet, financial position and investments

The consolidated balance sheet total amounted to EUR 39,611 (21,146) thousand on December 31, 2019. Consolidated shareholders' equity amounted to EUR 22,637 (5,552) thousand. The consolidated equity ratio was 57.1 (26.3) percent.

The consolidated goodwill recorded on the balance sheet on December 31, 2019 was EUR 4,256 (4,256) thousand. Cash flow from operating activities amounted to EUR 161 (-76) thousand for the year. Consolidated cash and cash equivalents at the end of the period amounted to EUR 18,866 (2,000) thousand. Interest-bearing net debt totaled EUR -8,938 (8,207) thousand at the end of the period. The financial position was strengthened with gross IPO proceeds of EUR 20 million in December 2019. Net cash used in investing activities was EUR -1,434 (-8,765). The increase was related to the acquisition of Commit; Oy in 2018.

Net working capital was EUR 1,267 (1,640) thousand at the end of the period.

Research and development

Optomed is a research and development driven healthcare technology company, employing 58 full-time equivalent ("FTE") employees within its research and development function, divided between the Devices and Software segments. The strong focus on research and development has been the core of the operations since the foundation of the company in 2004 and has resulted in a strong international patent portfolio comprising 55 international patents and 5 pending patents. Additionally, Optomed has 9 registered and 1 pending design patents as well as 31 registered and 6 pending trademarks.

Optomed's management believes that the strong patent portfolio and continuous development of new camera and software solutions are the most important competitive advantages of the company. Optomed's proprietary and patented technology have resulted in Optomed being able to develop and construct handheld fundus cameras that are able to provide high-quality fundus images. Image quality is on the same level or higher than some traditional desktop fundus cameras.

The research and development expenditure totaled EUR 2,668 thousand, of which EUR 894 thousand was capitalized and EUR 1,774 thousand was booked as cost. In 2018, the expenditure totalled EUR 2,615 thousand, of which EUR 1,058 thousand was capitalized and EUR 1,557 thousand was booked as cost.

The research and development expenditure increased 2.0 percent compared to 2018.

Non-financial information

Environment, Social and Governance (ESG) related matters are an integral part of Optomed's operations. The company is still rather small which enables the management to take ESG matters into consideration efficiently.

Optomed has identified manufacturing as one of its key ESG elements and the key ESG related risks are within the scope of manufacturing. Therefore, the ESG matters are taken into account when making resolutions with regards to manufacturing. Currently, Optomed's devices are manufactured by an EMS partner that is a NYSE listed entity with its own strict sustainability requirements and reporting. This gives Optomed visibility and assurance that ESG matters are taken into account with regards to its device manufacturing.

Optomed has implemented a governance structure required for the Nasdaq Helsinki main list and implemented significant amount of policies, including the code of conduct and whistleblowing that all employees are expected to follow. The code of conduct also highlights Anti-Bribery and Corruption (ABC) matters as they have been assessed to be extremely important due to the global nature of Optomed's operations. The governance function has been strengthened significantly and new expertise has been brought to the board and audit committee. The governance structure is described in detail in Optomed's Corporate Governance Statement.

Health technology is a regulated sector which also contributes to the company's ESG approach. Optomed complies with RoHS, REACH, conflict mineral regulations and all applicable privacy, consumer protection and product safety regulations. Optomed's compliance with respect to various medical devices related regulations is also audited by third parties regularly.

Personnel, management and legal structure

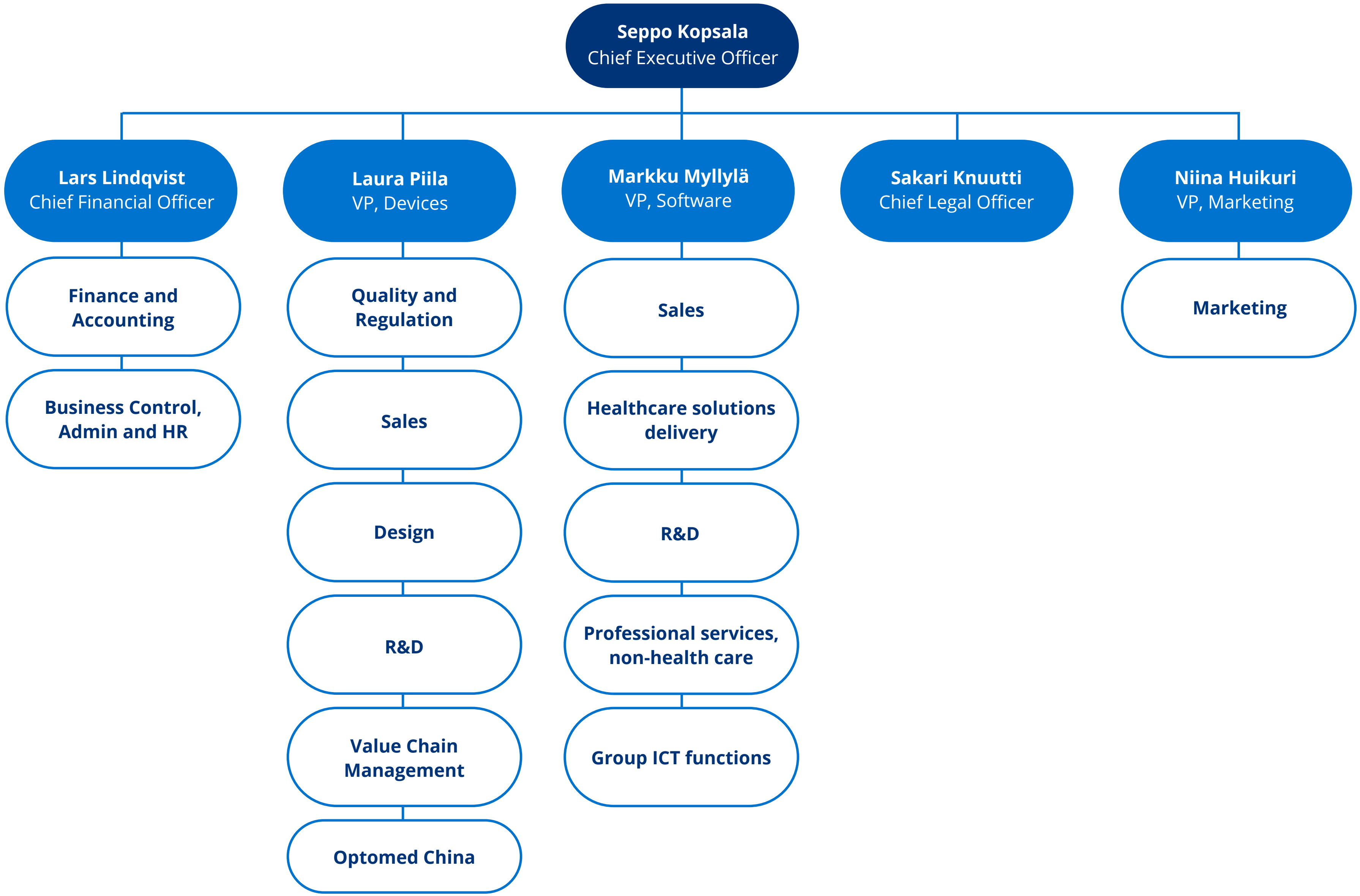
Personnel

On 31 December 2019, Optomed had a total of 108 employees, of which a significant number worked in expert roles. The employee contracts are mostly permanent contracts.

Number of employees	2019	2018
Average number of employees	106	113
Number of employees at the end of the period	108	105
Geographical distribution of employees	**2019**	**2018**
Finland	95	90
China	13	15
Total	108	105

Management

The Group CEO is responsible for the management of the company's operations and governance in accordance with the instructions of the Board of Directors. The CFO is responsible for the company's finance function, which includes accounting and reporting, business controlling, treasury, tax, human resources, investor relations and internal controls. The Vice President, Devices is responsible for the company's Devices segment, which also includes a sales team, and the Vice President also acts as the Operating Director of Optomed China. The Vice President, Software is responsible for the company's Software segment, in addition the Vice President acts as the Managing Director of Optomed Software Oy and is responsible for the group's IT function. The Vice President, Marketing is responsible for brand and marketing strategy for new and existing product, product management and training, as well as management of marketing campaigns and events. The Chief Legal Officer's responsibilities include legal matters, compliance, corporate governance, corporate responsibility and risk management. The Chief Legal Officer also acts as the secretary to the Board of Directors of the company.


Seppo Kopsala
Chief Executive Officer
Lars Lindqvist
Chief Financial Officer
Finance and Accounting
Business Control, Admin and HR
Laura Piila
VP, Devices
Quality and Regulation
Sales
Design
R&D
Value Chain Management
Optomed China
Markku Myllylä
VP, Software
Sales
Healthcare solutions delivery
R&D
Professional services, non-health care
Group ICT functions
Sakari Knuutti
Chief Legal Officer
Niina Huikuri
VP, Marketing
Marketing

Legal structure

Optomed group consists of the parent company Optomed Plc and four subsidiaries in Finland, China and Hong Kong. In addition, Optomed Plc has a branch in Sweden, Optomed Sweden Filial. The parent company of the group, Optomed Plc, is responsible for, among other things, the management of the group as well as finance and accounting functions, human resources, legal affairs and corporate communication. The parent company is responsible for the Devices segment operations, while the Software segment operations are carried out through Optomed Software Oy. In addition to Finland, Optomed operates in China through its subsidiaries. The main responsibilities of the Chinese subsidiaries are local sales and distribution channel management, product registration as well as the launching of new products, brand building, marketing, aftersales services, and repair services.

The following table presents the subsidiaries of the company along with respective ownership shares on 31 December 2019.

Subsidiaries of the company	Consolidated shareholding and voting right, %	Country of incorporation
Optomed Software Oy	100.0%	Finland
Optomed Hong Kong Ltd	100.0%	Hong Kong
Optomed China Limited Co., Ltd	100.0%	China
Shanghai Optomed Medical Technology Co., Ltd	100.0%	China

The Chinese subsidiary Shanghai Optomed Medical Technology Ltd was closed in early 2020.

Shares and shareholders

The company has one share series with all shares having the same rights. At the end of the review period Optomed Plc's share capital consisted of 14,003,144 shares and the company held 811,000 shares in the treasury which corresponds to approximately 5.8 percent of the total amount of the shares and votes. Optomed's market capitalization was EUR 88,8 million on December 31, 2019.

On December 31, 2019 Optomed's Chairman and Members of the Board of Directors owned 2,438,280 shares, representing approximately 17.4 percent of the total number of all shares and 18.5 percent of all shares excluding shares in treasury. The CEO and management team owned 637,080 shares and 418,000 options. Additional information with regards to the shareholding of the board and the management is available at the company's corporate governance statement.

Optomed's shareholder and share structure was as follows at the year end:

Sector	Number of shareholders	% of shareholders	Number of shares	% of shares
Private companies	117	380	1,583,645	11.31
Financial and insurance institutions	12	0.39	3,485,398	
Public sector organizations	2	0.07	731,080	
Households	2,932	95.32	1,909,522	13.64
Non-profit instit serving households	2			
Foreigners	3	0.10	2,210	0.02
Total	**3**	**0.10**	**2,210**	**0.02**
Nominee registered	8	0.26	6,287,109	44.90
In the joint book-entry account				

Number of shares	Shareholders	%	Shares	%
1 - 100	605	19.67	32,146	0.23
101 – 1,000	2,251	73.18	731,476	5.22
1,001 – 10,000	195	6.34	495,246	3.54
10,001 – 100,000	6	0.2	275,380	1.97
100,001 – 1,000,000	17	0.55	6,228,053	44.48
> 1,000,000	2	0.07	6,240,843	44.57
Total	**3,076**	**100.00**	**14,003,144**	**100.00**
Nominee registered	8	0.26	6,287,109	44.9
Number of shares issued			14,003,144	100

	Shareholder	Shares	% of shares
1	* Skandinaviska Enskilda Banken Ab (publ) Helsinki Branch	4,111,557	29.36
2	* Nordea Bank Abp	2,052,110	14.65
3	Optomed Oyj	811,000	5.79
4	Aura Capital Oy	691,756	4.94
5	Kopsala Seppo Henrik	637,080	4.55
6	Mandatum Life Insurance Company Ltd.	635,000	4.53
7	Suomen Teollisuussijoitus Oy	601,080	4.29
8	Sr Nordea Nordic Small Cap	500,000	3.57
9	Kaleva Mutual Insurance Company	490,000	3.5
10	Aktia Capital Mutual Fund	400,000	2.86
	10 largest shareholders total	**10,929,583**	**78.05**
	on which nominee registered	6,163,667	44.02
	Others	3,073,561	21.95
	In total	**14,003,144**	**100.00**

) Nominee registered

Flagging notifications

Under the provisions of the Finnish Securities Markets Act, shareholders of listed companies have an obligation to notify both the Finnish Financial Supervision Authority and the listed company of changes in their holdings when crossing predefined thresholds.

Optomed has received the following flagging notification in 2019:

On December 12, 2019, Optomed Plc received a flagging notification from Universal-Investment- Gesellschaft mit beschränkter Haftung ("Universal Investments"). According to the notification, the total holdings in Optomed shares and votes held by Universal Investments had increased to 7.47 percent of all of the registered shares in Optomed on 5 December 2019.

On December 9, 2019, Optomed Plc received a notification that the shares and votes indirectly held by Halma plc (directly held by Halma Ventures Limited) decreased to 0 percent.

The company's understanding based on the flagging notifications is that Cenova Capital (China) owns over 10 percent of the company's shares and Robert Bosch Venture Capital GmbH and Universal-Investment-Gesellschaft mit beschränkter Haftung own over 5 percent of the shares of the company.

The company is not aware of the existence of any Shareholders' agreements and it is not controlled by anyone. Additional information with respect to the shares, shareholding and trading can be found on the company's website www.optomed.com.

Authorizations

On 14 November 2019, the extraordinary general meeting of the company resolved to authorise the Board of Directors on the repurchase of up to 894,870 company's own shares, in one or several instalments, using the unrestricted shareholders' equity of the company.

On 14 November 2019, the extraordinary general meeting of the company resolved to authorise the Board of Directors to resolve on an issuance of up to 1,705,870 shares and/or special rights entitling to shares either against payment or without payment, in one or several instalments.

Group Share Indicators	2019	2018	2017
Earnings per share	-0.32	-0.17	-0.43
Equity per share	1.72	0.68	0.16
Dividend per share	-	-	-
Dividend % of earnings	-	-	-
effective dividend yield %	-	-	-
P/E ratio	-19.70	-	-
Share price performance, share issue adjusted *			
Lowest share price	4.53	-	-
Highest share price	7.52	-	-
Average share price	6.13		
Closing share price	6.34	-	-
Market value of shares at end of period	88,780	-	-
Weight average number of shares during the financial period	8,935,654	7,775,473	7,047,700
Weight average number of sharesin the end of financial year	14,003,144	8,147,700	7,047,700

**) Optomed's shares were listed on Nasdaq Helsinki stock exchange on 5.12.2019.*

Calculation of share indicators

Earnings per share	Profit for the period /adjusted average number of shares during the period
Equity per share	Shareholders’ equity / adjusted number of shares at the end of the financial period - own shares
Dividend per share	Total dividend / adjusted number of shares at the end of the financial period - own shares
Dividend, % of earnings	Dividends per share / earnings per share ×100
Effective dividend yield, %	Dividend per share x 100 / adjusted share price at the end of the financial period
P/E ratio	Earnings per share / market value per share

Option programs

Optomed has established several option programs as incentive programs covering employees, managing directors and consultants of the group.

Optomed's amended option programs are described in the table on this page.

Each option entitles its owner to subscribe for one (1) new, or if the company's Board of Directors so decides, existing A share in the company or if the company would only have one class of shares, as is the case following the Listing, such shares. The share subscription prices and the exercise periods are set out in the terms and conditions of the options.

The dividend right of the new shares and other shareholder rights will commence after the shares upon exercise of the relevant option are recorded into the Trade Register, or if existing shares of the company are being issued, upon completion of the transfer of the share provided that the transfer has been fully paid.

The options are forfeited and automatically transferred to the company without consideration if the employment or service relationship to the group is terminated, for any reason whatsoever, or if the consulting agreement regarding the option holder's work performed for the group is terminated for any reason whatsoever, unless the Board of Directors decides to deviate from the main rule.

Program	Subscription price (EUR)	Exercise Period	Outstanding options
2009A	0.7	1.7.2020 – 1.7 2021	80,000
2015	3.5	1.7.2020 – 1.7 2024	250,000
2017	3.5	1.7.2020 – 1.7 2024	210,000
2017B	3.5	1.7.2020 – 1.7 2022	58,000
2018C	3.5	1.7.2020 – 31.12.2024 (50%)	266,000
		1.7.2021 – 31.12.2024 (50%)	
2019A	3.5	1.7.2021 – 31.12.2024	84,000
2019B	3.5	1.7.2020 – 31.12.2024 (40%)	100,000
		1.9.2020 – 31.12.2024 (20%)	
		1.9.2021 – 31.12.2024 (40%)	
2019C	3.5	1.7.2020 – 31.12.2024 (50%)	20,000
		1.9.2020 – 31.12.2024 (50%)	
2019D	5	1.1.2023 – 31.12.2023	72,000
Total			**1,140,000**

Decisions of the annual general meeting

The Annual General Meeting ("AGM") of Optomed Plc was held on 10 May 2019. The AGM adopted the financial statements and discharged the members of the Board of Directors and the CEO from liability for the financial year 2018. The meeting approved the Board of Directors' proposal not to pay dividend for the year.

Petri Salonen, Matthew Hallam, Ingo Ramesohl, Anders Torstensson and Jun Wu were re-elected and Seppo Mäkinen, Reijo Tauriainen and Jens Umehag were elected to the Board. The Board of Directors elected Petri Salonen as the Chairperson and the following members to the Committees:

Audit Committee: Reijo Tauriainen (chairperson) Petri Salonen, Matthew Hallam and Jens Umehag.

Remuneration Committee: Petri Salonen (chairperson), Ingo Ramensohl and Anders Torstensson.

In addition to the Annual General Meeting, the company held three extraordinary general meetings in 2019. The meetings were due to the IPO process.

Other

On 5 December 2019, trading of the company's shares commenced on the prelist of Nasdaq Helsinki Ltd and on the official list of Nasdaq Helsinki on 9 December 2019.

On 20 December 2019, the company announced the exercise of over-allotment option in relation to the IPO of Optomed Plc and termination of the stabilisation period.

Risks and uncertainties

COVID-19 coronavirus

China has faced an outbreak of COVID-19 coronavirus in early 2020.

China is a major market for Optomed and the company also utilizes Chinese suppliers in its supply chain. The company may be adversely affected if the Chinese medical devices market faces a prolonged downturn due to the outbreak. Further, the company may be adversely affected in case Chinese component suppliers are not able to produce and deliver components in sufficient quantities for the company to continue to manufacture and deliver its devices. The company also recognizes the risk that the virus may become pandemic which would have an adverse effect on the company's global sales.

High quality products

The quality and safety of the company's products are extremely important for competitiveness.

The company may be adversely affected if it fails to continuously develop and update its fundus cameras and software solutions or to identify or integrate new products and product platforms into its offering.

Strategy and M&A

The company may be unsuccessful in fulfilling its strategy or the strategy itself may be unsuccessful.

The successful implementation of the company's strategy depends upon several factors, some of which are completely or partially outside the company's control. The company has an appropriate risk management function in the context of the size of the company's operations, however, it may not be able to identify or monitor all relevant risks and determine efficient risk management procedures and responsible persons that may again affect the strategy. The company is also dependent on its ability to develop and manage varying routes-to-market for its products, the efficiency of its sales channels and its customer and distributor relationships. Further, the company has an opportunistic view on M&A which by nature include inherent risks. Failure of strategy may force the company to record write-downs on its goodwill.

Market and competition

The company operates in a market that is highly competitive.

Optomed operates in the fundus camera market that is developing fast and the competition is sometimes fierce. The market acceptance of the company's products and solutions is important for its future growth. Optomed recognizes a possibility of new market changing products entering the market. Further, in certain key geographies Optomed's client base is limited and, therefore, a loss of a key customer in a key market may adversely affect the company's revenue streams.

External economic and political risks and natural disasters

Optomed operates globally and is thus exposed to various external risks.

The company is exposed to natural disasters taking place in countries where it operates. In addition to these, the company is also exposed to general and country specific, economic, political and regulatory risks, which could entail volatile sales in key markets.

Supply chain

Optomed's business is dependent on the effectiveness of purchasing materials, manufacturing and timely distribution.

The company is dependent on contract manufacturers for functioning, efficient and effective production and product assembly. Further, the company is dependent on suppliers which may affect the company's ability to supply its customers in a timely manner.

Systems and information

Optomed's operations are increasingly dependent on IT systems.

Disruption of the company's IT systems could inhibit the business operations in a number of ways, including disruption to financial reporting, sales, production and cash flows.

Litigation

Optomed operates globally and pursues double digit annual organic growth in medium term.

Optomed may not always be able to reach the best contractual terms with stakeholders. The company may be negatively affected by legal or administrative proceedings directed at the company or third parties due to back-to- back liability, or other disputes and claims including product liability, especially in terms of medical devices, and intellectual property rights related items.

Trade secrets and patents

The technological capabilities are a competitive advantage that the company must be able to protect.

The company may not be able to protect its trade secrets and know-how which could lead to losing the competitive advantage the company has. At the same time, the company may be forced to take actions against parties that violate Optomed's IPRs.

Talent & organisation

A skilled workforce and agile organisation are essential for the continued success of the business.

The company may be adversely affected if it would lose its key personnel or fails to attract the right talent.

Finance

The company needs external financing to operate and is not currently profitable.

The company is dependent on external financing and the company may have difficulties accessing additional financing on competitive terms or at all which may again contribute the company's liquidity risks. The company is also subject to credit and counterparty risks through its trade receivables.

Forex

Optomed operates globally and is thus exposed to currency exchange risks.

The company is exposed to foreign exchange rate risks arising from fluctuations in currency exchange rates, especially with regards to USD, EUR and RMB. Currency rates, along with demand cycles, can result in significant swings in the prices of the raw materials needed to produce the Company's goods, sales prices and OPEX.

Legal and regulatory

Compliance with laws and regulations is an essential part of Optomed's business operations.

Optomed and its' suppliers and distributors operate globally and are subject to various national and regional regulations in the areas of medical devices, product safety, product claims, data protection, intellectual property rights, health and safety, competition, employment, taxes and anti-money laundering and anti-bribery & corruption (AML & ABC). Furthermore, many of the company's devices are subject to various medical related assessment (including clinical trials), clearance and approval processes that are required to introduce the Company's products on the markets.

Failure to comply with the regulations might lead to loss of sales permits in different markets, product recalls, reputational issues, civil and criminal actions leading to various direct and indirect damages to Optomed and its employees that are not completely covered by Optomed's insurance coverage. Especially, failures with respect to compliance with certain medical devices related regulation and processes may hinder the company's devices market access.

Disputes

The company is not currently involved in any disputes or trials that would have a significant impact on the group's financial position.

Major events after the review period

On 28 January 2020, the company refinanced its bank loans and repaid an amount of EUR 3,173 thousand.

On 3 February 2020, the company announced the proposal of the Nomination Board. The Nomination Board proposes to the Annual General Meeting 2020, that Seppo Mäkinen, Petri Salonen, Reijo Tauriainen and Jun Wu are re-elected as Board members and Anna Tenstam is elected as a new Board member.

The board's proposal for the distribution of profit

The parent company's non-restricted equity on December 31, 2019 was EUR 21,736,790.31 and the net loss for the financial year was EUR 5,490,536.34. The Board of Directors proposes to the Annual General Meeting that no dividend will be paid and the non-restricted equity on the outstanding 14,003,144 shares shall be retained and carried forward.

Financial guidance for 2020

We continue to progress our expansion towards the US and grow our international distributor network. Additionally, we are currently investing in the development of our first fully integrated AI camera with expected commercial launch during 2020.

Optomed expects its revenue to grow during 2020 and that the growth will focus on the second half of the year.

The COVID-19 Coronavirus outbreak may have a negative impact on the company's growth affecting both the business in China and the overall business due to the company's Chinese component suppliers. Further, in case the virus becomes pandemic the company's global sales could be negatively affected.

Alternative performance measures definitions

Alternative Performance Measures	Definition
Gross profit	Revenue + Other operating income – Materials and services expenses
Gross margin, %	Gross profit / Revenue
EBITDA	Operating result before depreciation, amortisation and impairment losses
EBITDA margin, %	EBITDA / Revenue
Operating result	Profit/loss after depreciation, amortisation and impairment losses
Operating margin, %	Operating result / Revenue
Adjusted operating result	Operating result excluding items affecting comparability
Adjusted operating margin, %	Adjusted operating result / Revenue
Adjusted EBITDA	EBITDA excluding items affecting comparability
Adjusted EBITDA margin %	Adjusted EBITDA / Revenue

Items affecting comparability	Material items outside ordinary course of business including restructuring costs, net gains or losses from sale of business operations or other non- current assets, strategic development projects, external advisory costs related to capital reorganisation, impairment charges on non- current assets incurred in connection with restructurings, compensation for damages and transaction costs related to business acquisitions.
Net Debt	Interest-bearing liabilities (borrowings from financial institutions, government loans and subordinated loans) – cash and cash equivalents (excl. lease liabilities according to IFRS 16)
Net Debt / Adjusted EBITDA (LTM), times	Net Debt / Adjusted EBITDA (for the last twelve months, LTM)
Earnings per share	Net result / Number of outstanding shares (reflecting changes in the number of shares following the resolution of the EGM to split the shares of the Company with a ratio of 1:20)
Equity ratio, %	Total equity / Total assets
R&D expenses	Employee benefit expenses for R&D personnel and other operational expenses related to R&D activities
Organic growth, %	Organic growth refers to revenue growth excluding (i) growth attributable to acquisitions and divestments; and (ii) growth attributable to fluctuations in exchange rates. The various components in organic growth is calculated as follows: Acquisitions and divestments: Shows how acquisitions and divestments completed during the relevant period have affected the reported revenues. To estimate the impact of acquisitions on reported revenue, the revenue from the contributions of the acquired units for the current period is subtracted from the total revenue for the same period. To estimate the impact of divestments on reported revenue, the revenue from the contributions from the divested units for the current period is subtracted from the total revenue from the previous respective comparison period. Currency Fluctuations: Shows how the reported revenue has been affected by the translation of revenue generated in other currencies than the euro (which is the Group's accounting currency) when there are exchange rate differences between the current period and the corresponding comparative period. Income in currencies other than euro for the comparative period is recalculated using the applicable exchange rate for the current period to eliminate the effects of exchange rate fluctuations for the relevant period.

Reconciliation of Alternative Performance Measures

EUR, thousand	2019	Pro forma, 2018	2017
Revenue	14,977	14,463	6,899
Other operating income	254	889	288
Material and services	-5,287	-4,954	-3,118
Gross profit	**9,944**	**10,398**	**4,069**
Operating profit/loss (EBIT)	**-2,596**	**-664**	**-2,828**
Items affecting comparability			
IPO related expenses	139	135	0
Acquisition related expenses	0	191	0
Adjusted EBIT	**-2,457**	**-338**	**-2,828**
Depreciation, amortization and impairment losses	2,261	1,997	1,043
Adjusted EBITDA	**-196**	**1,661**	**-1,785**

Reconciliation of organic growth, Group	2019	2018
Revenue	14,977	12,733
Acquisitions (elimination of revenues for comparability)	-2,029	0
Revenue excluding acquisitions	12,948	12,733
Currency effects	0	26
Revenue excluding acquisitions and currency effects	12,948	12,759
Organic growth, percent	1.5%	

Devices segment	2019	2018
Revenue	7,309	7,460
Acquisitions (elimination of revenues for comparability)	0	0
Revenue excluding acquisitions	7,309	7,460
Currency effects	0	26
Revenue excluding acquisitions and currency effects	7,309	7,486
Organic growth, percent	-2.4%	
Software segment	**2019**	**2018**
Revenue	7,668	5,273
Acquisitions (elimination of revenues for comparability)	-2,029	0
Revenue excluding acquisitions	5,639	5,273
Currency effects	0	0
Revenue excluding acquisitions and currency effects	5,639	5,273
Organic growth, percent	6.9%	

Consolidated income statement

In thousands of euro	Note	Jan 1 - Dec 31, 2019	Jan 1 - Dec 31, 2018
Revenue	2, 3, 4	14,977	12,733
Other operating income	5	254	889
Materials and services	6	-5,287	-4,568
Employee benefit expenses	7	-7,299	-5,137
Depreciation, amortisation and impaiment losses	9	-2,261	-1,810
Other operating expenses	8	-2,980	-2,855
Other operating expenses		**-2,596**	**-748**
Finance income	10	8	22
Finance expenses	10	-365	-578
Net finance expenses		**-356**	**-555**
Loss before income taxes		**-2,952**	**-1,303**
Income tax expense	11	77	-24
Loss for the financial year		**-2,875**	**-1,327**
Loss for the financial year attributable to			
Owners of the parent company		-2,875	-1,327
Loss per share attributable to owners of the parent company			
Basic loss per share (euro)	12	-0.32	-0.17

Consolidated comprehensive income statement

In thousands of euro	Jan 1 - Dec 31, 2019	Jan 1 - Dec 31, 2018
Loss for the financial year	**-2,875**	**-1,327**
Other comprehensive income		
Items that may be subsequently reclassified to profit or loss		
Foreign currency translation difference	14	13
Other comprehensive income for the financial year, net of tax	**14**	**13**
Total comprehensive income for the financial year	**-2,861**	**-1,314**
Total comprehensive loss attributable to		
Owners of the parent company	-2,861	-1,314

Consolidated balance sheet

In thousands of euro	Note	Dec 31, 2019	Dec 31, 2018
ASSETS			
Non-current assets			
Goodwill		4,256	4,256
Development costs		5,218	5,172
Customer relationships		1,829	2,051
Technology		840	942
Other intangible assets		519	376
Total intangible assets	4, 13	**12,662**	**12,796**
Tangible assets	14	406	739
Right-of-use assets	15	1,075	1,084
Deferred tax assets	11	8	8
Total non-current assets		**14,151**	**14,627**
Current assets			
Inventories	16	2,468	1,121
Trade receivables	17, 22	2,897	2,871
Other receivables	18	1,228	528
Cash and cash equivalents	17	18,866	2,000
Total current assets		**25,459**	**6,519**
Total assets		**39,611**	**21,146**

In thousands of euro	Note	Dec 31, 2019	Dec 31, 2018
EQUITY			
Share capital		80	19
Share premium		504	565
Reserve for invested non-restricted equity		37,341	18,549
Translation differences		89	75
Retained earnings		-12,500	-12,329
Profit (loss) for the financial year		-2,875	-1,327
Total equity	19	**22,637**	**5,552**
LIABILITIES			
Non-current liabilities			
Borrowings from financial institutions	20, 22	5,104	-
Government loans	20, 22	2,998	2,993
Lease liabilities	15, 20	699	727
Preference share liability	19, 20	-	694
Deferred tax liabilities	11	616	693
Total non-current liabilities		**9,416**	**5,107**
Current liabilities			
Borrowings from financial institutions	20, 22	1,766	7,010
Government loans	20, 22	60	204
Lease liabilities	15, 20	414	393
Trade payables	20	1,667	733
Other payables	21	3,650	2,147
Total current liabilities		7,557	10,487
Total liabilities		**16,973**	**15,594**
Total equity and liabilities		**39,611**	**21,146**

Consolidated cash flow statement

In thousands of euro	Note	Jan 1 - Dec 31, 2019	Jan 1 - Dec 31, 2018
Cash flows from operating activities			
Loss for the financial year		-2,875	-1,327
Adjustments:			
Depreciation, amortisation and impairment losses	9	2,261	1,810
Finance income and finance expenses	10	356	555
Other adjustments		466	228
Cash flows before change in net working capital		207	1,267
Change in net working capital:			
Change in trade and other receivables (increase (-) / decrease (+))		-783	-958
Change in inventories (increase (-) / decrease (+))		-1,346	-50
Change in trade and other payables (increase (+) / decrease (-))		2,396	-126
Cash flows before finance items		475	133
Interest paid		-202	-218
Other finance expenses paid		-136	-86
Interest received		24	2
Income taxes received		-	93
Income taxes paid		-	-
Net cash from operating activities (A)		**161**	**-76**

In thousands of euro	Note	Jan 1 - Dec 31, 2019	Jan 1 - Dec 31, 2018
Cash flows from investing activities			
Acquisition of intangible assets	13	-1,175	-1,295
Acquisition of tangible assets	14	-260	-404
Proceeds from sale of intangible assets		-	8
Proceeds from sale of tangible assets		-	133
Acquisition of subsidiary, net of cash acquired	4	-	-7,604
Dividends received		-	16
Proceeds from sale of financial assets		-	380
Net cash used in investing activities (B)		**-1,434**	**-8,765**
Cash flows from financing activities			
Proceeds from share subscriptions	19	23,000	5,500
Share issue transaction costs		-4,208	
Proceeds from loans and borrowings	20	176	5,192
Repayment of loans and borrowings	20	-460	-537
Repayment of lease liabilities	15, 20	-385	-342
Net cash from financing activities (C)		**18,123**	**9,814**
Net cash from (used in) operating, investing and financing activities (A+B+C)		**16,849**	**972**
Net increase (decrease) in cash and cash equivalents		**16,849**	**972**
Cash and cash equivalents at January 1		**2,000**	**1,032**
Effect of movements in exchange rate on cash held		17	-5
Cash and cash equivalents at December 31	17	**18,866**	**2,000**

Consolidated statement of changes in equity

		Equity attributable to owners of the parent company					
In thousands of euro	Note	Share capital	Share premium	Reserve for invested non-restricted equity	Translation differences	Retained earnings	**Total**
Balance at January 1, 2019		**19**	**565**	**18,549**	**75**	**-13,656**	**5,552**
Comprehensive income							
Loss for the financial year		-	-	-	-	-2,875	**-2,875**
– translation differences		-	-	-	14	-	**14**
Total comprehensive income for the financial year		**-**	**-**	**-**	**14**	**-2,875**	**-2,862**
Transactions with owners of the company							
Share issue	19	61	-61	18,792	-	694	**19,486**
Share options	7	-	-	-	-	461	**461**
Total transactions with owners of the company		**61**	**-61**	**18,792**	**-**	**1,155**	**19,947**
Balance at December 31, 2019	**19**	**80**	**504**	**37,341**	**89**	**-15,376**	**22,637**

In thousands of euro	Note	Share capital	Share premium	Reserve for invested non-restricted equity	Translation differences	Retained earnings	Total
		Equity attributable to owners of the parent company					
Balance at January 1, 2018		**19**	**565**	**13,049**	**62**	**-12,532**	**1,162**
Comprehensive income							
Loss for the financial year		-	-	-	-	-1,327	**-1,327**
Other comprehensive income – translation differences		-	-	-	13	-	**13**
Total comprehensive income for the financial year		**-**	**-**	**-**	**13**	**-1,327**	**-1,314**
Transactions with owners of the							
Share issue	19	-	-	5,500	-	-	**5,500**
Share options	7	-	-	-	-	203	**203**
Total transactions with owners of the company	**-**	**-**	**-**	**5,500**	**-**	**203**	**5,703**
Balance at December 31, 2018	**19**	**19**	**565**	**18,549**	**75**	**-13,656**	**5,552**

Notes to the consolidated financial statements

1. Corporate information and basis of accounting

1.1 Corporate information

Optomed is a Finnish medical technology group that specialises in hand-held fundus cameras and solutions for screening of blinding eye diseases, established in 2004.

The Group's parent company, Optomed Plc. is a Finnish public limited liability company established under the laws of Finland, and its business ID is 1936446-1. It is domiciled in Oulu, Finland and the company's registered address is Yrttipellontie 1, 90230 Oulu, Finland.

In its meeting on 27 February 2020 the Board of Directors of Optomed Plc approved these consolidated financial statements. According to the Finnish Limited Liability Companies' Act, the shareholders have the right to approve or reject the financial statements in the Annual General Meeting held after the publication of the financial statements. Furthermore, the Annual General Meeting can decide on modifications to be made to the financial statements.

1.2 Basis of accounting

General policies applied that relate to the consolidated financial statements as a whole are described in the section 1.2. Accounting policies that are specific to a component of the financial statements, together with descriptions of management judgements, related estimates and assumptions, have been incorporated into the relevant note.

Optomed's financial statements are assuming that the group will continue as a going concern. The going concern basis presumes that the group has adequate resources to remain in operation, and that management intends to do so, for at least one year from the date the financial statements are signed.

The consolidated financial statements are prepared on a historical cost basis, except for the following that are measured at fair value (refer to *1.2.3 Measurement of fair values* below):
— share-based payments

The financial year of Optomed is the calendar year. The figures in the financial statements are mainly presented in thousands of euro. All figures presented have been rounded, and consequently the sum of individual figures may deviate from the presented aggregate figure. Key figures are computed using exact figures.

1.2.1 Consolidation

The consolidated financial statements incorporate the financial statements of the parent company Optomed Plc. and of all those subsidiaries over which the parent company has control at the end of the reporting period. Optomed controls an entity when Optomed is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Acquired subsidiaries are consolidated from the date on which control is transferred to Optomed until control ceases. Refer to *Note 24. Related party transactions for disclosures on the Group structure*.

Intra-group transactions, receivables, liabilities and unrealized margins, as well as distribution of profits within the Group, are eliminated in preparing the consolidated financial statements. Optomed had no non-controlling interests (NCI) during the financial years in the report.

Acquired or established subsidiaries are accounted for by using the acquisition method. Refer to *Note 4. Business combinations* for further information.

1.2.2 Foreign currency transactions and balances

Items included in the financial statements of each subsidiary are measured using the currency of the primary economic environment in which the company operates ('the functional currency'). The consolidated financial statements are presented in Euro, which is the functional and presentation currency of the parent company.

Subsidiaries' foreign currency transactions are translated into local functional currencies using the exchange rates prevailing at the dates of the transactions. Receivables and liabilities denominated in foreign currencies are translated into functional currencies using the exchange rate quoted at the reporting date.

For those subsidiaries with non-Euro functional and presentation currency, the income and expenses for the income statement and comprehensive income statement, and the items for cash flow statement, are translated into Euro using the average exchange rates of the reporting period. The assets and liabilities for the balance sheet are translated using the exchange rates prevailing at the reporting date. The translation differences arising from the use of different exchange rates explained above are recognized in consolidated other comprehensive income. Any goodwill arising on the acquisition of foreign operations and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of those foreign operations are treated as assets and liabilities of those foreign operations. They are translated into Euro using the exchange rates prevailing at the reporting date. When a foreign operation is sold, or is otherwise partially or completely disposed of, the translation differences accumulated in equity are reclassified in profit or loss as part of the gain or loss on the transaction.

1.2.3 Measurement of fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierachy based on the inputs used in the valuation techniques as follows:

— Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
— Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability; either directly
(i.e. as prices) or indirectly (i.e. derived from prices).
— Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Specific valuation techniques used in fair value measurement include:
— Share-based payments – Black-Scholes option pricing model (*Note 7.4 Share-based payment plans*)
— Intangible assets identified in the Commit acquisition - multi-period excess earnings method and relief-from-royalty method (*Note 4. Business combination*).

1.2.4 Operating result

Optomed has determined operating result to be a relevant subtotal in understanding the group's financial performance. However, IFRS does not define the concept of operating result. The group has defined it as follows: operating result is the net amount attained when revenues are added by other operating income, less:
— purchase expenses, adjusted with change in inventories
— employee benefit expenses
— depreciation, amortisation and any impairment losses, and
— other operating expenses.
All other items are presented below operating result in the income statement.

1.2.5 Non-current assets held for sale

Non-current assets (or disposal groups) are classified as held for sale, if their carrying amounts are to be recovered principally through a sale transaction rather than through continuing use. From the date of classification, these assets (or disposal groups) are measured at the lower of their carrying amounts and fair value less the costs to sell, and the recognition of depreciation or amortisation is discontinued.

1.2.6 Critical management judgments and related estimates and assumptions

The preparation of financial statements under IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the end of the reporting period as well as the reported amounts of income and expenses during the reporting period. These estimates and assumptions are based on historical experience and other justified assumptions, such as future expectations, that Optomed management believes are reasonable under the circumstances at the end of the reporting period and the time when they were made.

Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. The estimates and underlying assumptions are reviewed on an on-going basis and when preparing financial statements. Changes in accounting estimates may be necessary if there are changes in the circumstances on which the estimate was based, or as a result of new information or more experience. Such changes are recognized in the period in which the estimate or the assumption is revised.

Use of judgment and estimates

Judgements that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognised in the financial statements, relate to the following areas:

— capitalisation of development costs: determination of development expenditure eligible for capitalisation (*Note 13. Intangible assets*)

— leases: determination of lease term (*Note 15. Leases*)

Assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are the following:

— goodwill impairment testing (*Note 13. Intangible assets*)
— capitalisation of development expenditures (*Note 13. Intangible assets)*

1.2.7 Adoption of new and amended standards in future financial years

Optomed has not yet adopted the following amended standards and interpretations already issued by the IASB. The Group will adopt these pronouncements as of the effective date of each of the pronouncements, or if the effective date is not the first day of the financial year, as of the beginning of the next financial year following the effective date. Currently Optomed believes that the adoption of these pronouncements will not have a significant effect on the future consolidated financial statements.

* = not yet endorsed for use by the European Union as at December 31, 2019.

Amendments to References to Conceptual Framework in IFRS Standards: The revised Framework codifies IASB's thinking adopted in recent standards. The Conceptual Framework primarily serves as a tool for the IASB to develop standards and to assist the IFRS Interpretations Committee in interpreting them. It does not override the requirements of individual IFRSs.

Amendments to IFRS 3 *Business Combinations - Definition of a Business**: The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business.

Amendments to IAS 1 *Financial Statements: Presentation and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material*: The amendments clarify the definition of material and include guidance to help improve consistency in the application of that concept across all IFRS standards. In addition, the explanations accompanying the definition have been improved.

Other amendments and interpretations are not expected to have an impact on the consolidated financial statements when adopted.

2. Segment reporting

2.1 Accounting policy

An operating segment is a component of the group that engages in business activities from which it may earn revenues and incur expenses and for which discrete financial information is available. Since April 2018, following the Commit acquisition Optomed has two reportable segments, Devices and Software.

Devices segment consists of handheld fundus camera products, which are used in ophthalmology, pediatric care, endocrinology, neurology and primary care Currently it comprises all Optomed branded camera products, such as Optomed Smartscope Pro, Optomed Aurora and Optomed Aava cameras. Also the OEM cameras are Pictor Plus (Volk), Visuscout 100 (Zeiss), Fundus Module 300 (Haag-Streit) and Bosch Eye Cam are included in this segment.

Software segment offers products for optimal management of various screening operations as well as IT solutions and services for storing, viewing and working with medical images. Also professional IT consulting services for sectors that require high information security expertise are included in this segment. Currently it comprises own screening solution products for diabetic retinopathy and breast, cervical and bowl cancer screening management. Optomed is also a retailer of Sectra software solutions and several companies' artificial intelligence algoritms.

In Optomed Group the CEO has been identified as being the chief operating decision maker responsible for assessing performance of the segments and making resource allocating decisions. The segment disclosures presented are based on the internal management reporting. Optomed has not aggregated operating segments into reportable segments.

2.2 Reportable segments

2019

In thousands of euro	Devices	Software	Group Admin	Group, Total
External revenue	7,310	7,668	-	14,977
Net operating expenses	-3,109	-1,924	-	-5,033
Margin	**4,200**	**5,744**	**-**	**9,944**
Depreciation and amortisation	-1,502	-757	-	-2,261
Other expenses	-4,609	-4,077	-1,593	-10,279
Operating result	**1,913**	**909**	**-1,593**	**-2,596**
Finance items	0	0	-356	-356
Loss before tax expense	-1,913	909	-1,949	-2,952
Segment assets	10,351	7,864	193	18,408
Capital expenditure	1,172	177	-	1,349
Segment liabilities	1,582	272	73	1,927

2018

In thousands of euro	Devices	Software	Group Admin	**Group, Total**
External revenue	7,461	5,272		**12,733**
Net operating expenses	-2,408	-1,271		**-3,678**
Margin	**5,053**	**4,001**		**9,054**
Depreciation and amortisation	-1,558	-253		**-1,810**
Other expenses	-4,832	-3,159		**-7,991**
Operating result	**-1,337**	**590**		**-747**
Finance items	-	-	-556	**-556**
Loss before tax expense	**-1,337**	**590**	**-556**	**-1,303**
	Devices	Software	IFRS adjustments	**Group, Total**
Segment assets[1]	**9,318**	**1,012**	**-215**	**10,115**
Capital expenditure	1,226	8,988	840	**11,054**
Segment liabilities	1,189	40		**1,229**

[1)] The adjustment related to:
[i)] the change in the depreciation policy in capitalized intangible assets (leases) depreciations, and
[ii)] net effect of the adjustments associated with the Commit acquisition (the amortisation of customer relationships and technology, as well as the reversal of the goodwill amortisation recorded under FAS).

2.3 Geographic information

In presenting the geographic information, segment assets were based on the geographic location of the assets. Segment assets are measured in the same way as in the IFRS financial statements.

	Non-current assets[1]	
In thousands of euro	**2019**	**2018**
Finland	13,778	14,320
China	365	299
Total	**14,143**	**14,619**

1) Group's non-current assets exclude financial instruments and deferred tax assets. Optomed has no defined benefit pension plans and thus no related assets.

Disaggreration of consolidated revenue by geographical market is disclosed in *Note 3.2 Disaggregation of revenue.*

2.4 Major customers

The group's revenues from two major customers of the Devices segment in the financial years 2019-2018 were approximately as follows: from one customer EUR 1.4 million (2019), and EUR 1.5 million (2018), and from another customer EUR 1.3 million (2019) and EUR 1.8 million (2018).

3. Revenue

3.1 Accounting policy

Optomed recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which Optomed expects to be entitled in exchange for those goods or services.

Devices segment sells medical imaging tools and solutions to distributors. The agreements with distributors are frame agreements. An enforceable contract is created based on each purchase order combined with the frame agreement. Typical sales agreements for the Software segment include maintenance service agreements, resource hiring agreements, service portal agreements and software package agreements.

For medical imaging tools and solutions each product in a purchase order forms a separate performance obligation as:
— the distributor can benefit from the good on its own, and
— the promise to transfer the good to the customer is separately identifiable from other promises in the contract. Extended warranty may be sold separately, it is also a separate performance obligation.

For Software segment:
— A maintenance contract has one performance obligation containing overall service for the period agreed upon.
— A resource hiring contract is based on hourly fee. Each hour of consulting service is a separate performance obligation.

— A service portal agreement includes following separate performance obligations: implementation, additions for new service providers, reconfigurations and continuous service provided.
— A software package agreement includes following separate performance obligations: licences, implementation and continuous maintenance service.

Transaction prices in the contracts are mostly fixed. Some contracts may, however, include a minimum amount for transactions in a certain period, for example. The variable fee is constrained to the amount for which it is highly probable that a significant reversal will not occur subsequently. The terms of payment applied vary to some extent geographically and in different business areas, but the term of payment provided is nonetheless always clearly less than a year. Consequently, contracts do not include a significant financing component.

Optomed allocates the transaction price for medical imaging tools and solutions to performance obligations based their stand-alone selling prices using price lists. For service portal and software package contracts the transaction price is allocated based on costs incurred plus margin.

For Devices segment the revenues from sales of medical imaging tools and solutions are recognised when the performance obligation is satisfied by transferring a promised good to the distributor, i.e. at a point in time. The control is transferred when Optomed has present right to payment, significant risks and rewards of ownership have transferred to the distributor as well as the legal title and physical possession of the products.

In respect of Software segment:
— Service revenues are recognised over time as the customer simultaneously receives and consumes the benefits provided by Optomed's performance.
— Revenues from implementation projects are recognised at a point in time when the customer gets control and is able to start using the end product.
— Licence revenues are recognised at the point in time when the customer gets control. This is based on the nature of licences, being to provide a right to use intellectual property of the Software segment as that intellectual property exists (in terms of form and functionality) at the point in time at which the licence is granted to the customer.

3.2 Disaggregation of revenue

In the following tables, consolidated revenue is disaggregated by geographical market[1] and timing of revenue recognition.

Trade receivables and related credit losses are described in *Notes 17. Financial assets* and *22.5 Liquity risk*.

In thousands of euro	2019		2018	
Finland	7,308	49%	5,021	39%
China	1,795	12%	2,753	22%
Other	5,874	39%	4,960	39%
Total	**14,977**	**100%**	**12,733**	**100%**

[1)] Based on the geographic location of customers.

In thousands of euro	2019		2018	
Products and services transferred at a point in time	9,884	66%	8,067	63%
Services transferred over time	5,094	34%	4,667	37%
Total	**14,977**	**100%**	**12,733**	**100%**

4. Business combination

4.1 Accounting policy

Acquired subsidiaries are accounted for by using the acquisition method. The consideration transferred and the identifiable assets acquired and liabilities assumed in the acquired company are measured at the acquisition-date fair values. The consideration transferred includes any assets transferred by the acquirer, liabilities incurred by the acquirer to former owners of the acquiree and any equity interests issued by the acquirer. The consideration transferred does not include any transactions accounted for separately from the acquisition, but instead these are recognised in profit or loss in the connection with the acquisition.

Any contingent consideration (additional purchase price) is measured at fair value at the acquisition date and it is classified as either liability or equity. Contingent consideration classified as a liability is remeasured at fair value at the end of each reporting period and the resulting fair value changes are recognized in profit or loss. Contingent consideration classified as equity is not subsequently remeasured.

All acquisition-related costs, such as professional fees, are expensed in the periods in which the costs are incurred and the services rendered, with the exception of costs to issue debt or equity securities.

4.2 Assumptions and estimation uncertainties

The measurement of fair values on a business combination requires the recognition and measurement of the identifiable assets, liabilities and contingent liabilities. Optomed has relied on an external advisor on the estimates of the fair values of the assets and liabilities. In respect of intangible assets, fair value measurement is based on estimated future cash flows expected to be derived from the assets. The key assumptions and estimations involved with the Commit acquisition were the identification and valuation of intangible assets which require the estimation of future cash flows.

4.3 Summary of acquisition

In March 26, 2018 Optomed acquired the total share capital in Commit Oy. With the acquisition these two companies form a strong international provider of complete solutions for screening of different diseases. The merger enables serving the customer base of both companies better than before and investing more in research and development and international growth.

The purchase consideration, EUR 8,877 thousand, was effected in cash. There was no contingent consideration. Acquisition-related costs of EUR 191 thousand, comprising the asset transfer tax and professional fees, are included in the line item Other operating expenses in the consolidated income statement.

The consolidated income statement for the financial year 2018 comprises the revenues (EUR 5,273 thousand) and loss of Commit Oy (EUR 102 thousand) for the period April-December 2018. Had the acquisition occurred at January 1, 2018, consolidated pro-forma revenue and loss for the year ended December 31, 2018 would have been EUR 14,463 thousand and EUR -1,268 thousand, respectively.

4.4 Identifiable assets acquired and liabilities assumed

The following table presents the recognised amounts of assets acquired and liabilities assumed at the date of acquisition:

In thousands of euro	Note	Recognised fair values
Assets		
Intangible assets		
Customer-related intangibles	13	2,222
Technology-based intangibles	13	1,067
Machinery and equipment		274
Right-of-use assets		628
Trade receivables and other receivables		894
Shareholdings and financial assets		596
Cash and cash equivalents		1,273
Total assets		**6,954**

In thousands of euro	Note	Recognised fair values
Liabilities		
Trade and other payables		-219
Lease liabilities		-628
Other liabilities		-837
Deferred tax liabilities	11	-649
Total liabilities		**-2,333**
Net assets		4,621

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

— Customer relationships, EUR 2,222 thousand / multi-period excess earnings method: This method considers the present value of net cash flows expected to be generated by the customer relationships, by excluding any cash flows related to contributory assets.
— Technology asset, EUR 1,023 thousand / relief-from-royalty method: This method considers the discounted estimated royalty payments that are expected to be avoided as a result of the technology acquired.

The estimated remaining useful life of the both assets is 10 years.

Optomed expects the gross contractual amount for the acquired trade receivables to equal their fair value (EUR 684 thousand).

The non-recurring fair value measurement for the acquisition has been categorised as a Level 3 fair value based on the inputs to the valuation techniques used (for the fair value hierarchy refer to *Note 1.2.3 Measurement of fair values*).

4.5 Goodwill on acquisition

In thousands of euro	
Purchase consideration transferred	8,877
Net identifiable assets of the acquiree	-4,621
Goodwill	4,256

The goodwill is attributable to the professional workforce and other synergy benefits expected to be derived from the Commit acquisition, based on the expanded service selection of the combined group enabling increase of revenues. The goodwill has been allocated to the Software segment. The goodwill will not be deductible for tax purposes. Disclosures on goodwill impairment testing are presented in *Note 13. Intangible assets*.

4.6 Consideration transferred - cash outflow

In thousands of euro	
Outflow of cash to acquire Commit, net of cash acquired	
Cash consideration	8,877
Less: cash acquired	-1,273
Net outflow of cash - investing activities	**7,604**

5. Other operating income

5.1 Accounting policy

Other operating income comprises income from activities outside the ordinary business of Optomed. Examples include government grants, rental income and gains from disposals of tangible and intangible assets.

The Group recognises a government grant only when:
— there is reasonable assurance that Optomed will comply with the conditions attached to the grant, and
— the grant will be received.

Income-related grants are recognised in profit or loss over the periods necessary to match them with the related costs that they are intended to compensate. They are presented under the line item Other operating income. Asset-related grants, such as government grants received for development purposes, are deducted in arriving at the carrying amount of the assets. The grant is recognised over the life of the asset as a reduced depreciation expense.

5.2 Breakdown of other operating income

In thousands of euro	2019	2018
Other operating income	254	889
Total	**254**	**889**

During the financial years 2018-2019 Optomed has received government grants from various organisations, such as Business Finland (previously Tekes). Part of the Horizon grants the most significant grants for the year 2018 and 2019 Optomed received from the EU Horizon 2020 funding programme for research and innovation. Part of the Horizon grants were deducted from the carrying amount of related capitalised development costs, as applicable.

6. Materials and services

6.1 Breakdown of materials and services expenses

In thousands of euro	2019	2018
Purchase expenses	-4,768	-4,853
Change in inventories (increase (+), decrease (-))	-259	300
External services	-259	-15
Total	**-5,287**	**-4,568**

7. Employee benefits

7.1 Accounting policy

Employee benefits include the following:
a) short-term employee benefits
b) post-employment benefits
c) other long-term employee benefits (no such benefits were provided during the financial years 2018-2019)
d) termination benefits, i.e. benefits provided in exchange for the termination of an employment
(no such benefits were provided during the financial years 2018-2019)
e) share-based payments (refer to *Note 7.4 Share-based payment plans* below).

a) Wages, salaries, fringe benefits, annual leave and bonuses are included in short-term employee benefits. They are recognised in the period in which the work is performed.

b) Post-employment benefits are payable to employees after the completion of employment. In Optomed, these benefits are related to pensions. Pension coverage of the Group is arranged through external pension insurance companies. Pension plans are classified as either defined contribution or defined benefit plans. Optomed only has defined contribution plans. A defined contribution plan is a pension plan under which Optomed pays fixed contributions into a separate entity. Optomed has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the related benefits. All other plans are classified as defined benefit plans. The contributions for defined contribution plans are recognized as employee benefit expense in those periods to which they relate. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

c) Other long-term employee benefits are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits. Examples include long-term paid absences such as sabbatical leave.

d) Termination benefits are not based on work performance but on the termination of employment. These benefits consist of severance payments. Termination benefits result either from the Group's decision to terminate the employment or the employee's decision to accept the benefits offered by Optomed in exchange for the termination of employment. Such benefits are recognised at the earlier of: when Optomed can no longer withdraw the offer of the benefits, and when the Group recognises costs for a restructuring that involves the payment of termination benefits.

e) The Group has four share-based incentive plans for the Group key personnel, which are share option plans. The purpose of the plans is to encourage the employees to work on a long-term basis in order to increase shareholder value, and to commit the key employees to the company. The payments for the incentives are made with equity instruments.

Share-based compensation is measured at the grant date and expensed using the straight-line method in the income statement over the vesting period. The expense determined at grant date is based on Optomed's estimate of the number of share options to which it is assumed that rights will vest by the end of the vesting period. The fair value is determined using the Black-Scholes pricing model. The Group updates its estimate of the final number of the share options that will vest at each reporting date. Changes in this estimate are recognised in the income statement. The options will be returned to Optomed in case the employee leaves the Group before the subscription period has commenced. There are no other vesting conditions.

When the option rights are exercised, the proceeds received are recognised in accordance with the terms of the plan under Reserve for invested non-restricted equity, net of any transaction costs.

7.2 Expenses recognised in profit or loss

In thousands of euro	2019	2018
Wages and salaries	-5,677	-4,180
Contributions to defined post-employment plans	-894	-705
Other social security expenses	-267	-48
Share-based payment plans	-461	-203
Total	**-7,299**	**-5,137**

Information on the remuneration of the key management personnel is presented in *Note 24. Related party transactions.*

7.3 Number of personnel

	2019	2018
Average number of employees for the financial year	106	113

7.4 Share-based payment plans

The figures presented below reflect the changes in the number of options following from the share split carried out in November 2019.

2009 plan

At May 29, 2009 the extraordinary general meeting decided on the issuance of a maximum of 120,000 option rights that entitle their owners to subscribe for a total of 120,000 A shares in the company, to the group's key persons. The Board of Directors issued a total of 100,000 option rights, for which 20,000 were used to share subscriptions prior to January 1, 2016. The share subscription period for remaining options rights commenced at July 1, 2020 and it expired at July 1, 2021. This option program was updated in EGM meeting 13.9.2019.

2015 - 2017 plan

At August 14, 2015 the meeting of shareholders decided on the issuance of a maximum of 640,000 option rights that entitle their owners to subscribe for a total of 640,000 A shares in the company, to the group's key persons. During the years 2015-2018 the Board of Directors issued a total of 657,000 option rights, for which 89,000 were returned to the company, resulting in 568,000 option rights issued on a net basis. The numbers and share subscription periods are as follows:

— 460,000 pcs: July 1, 2020 - July 1, 2024
— 60,000 pcs: January 1, 2020 - December 31, 2021
— 24,000 pcs: July 1, 2020 - December 31, 2024
— 24,000 pcs: July 1, 2021 - December 31, 2024

This option program was updated in EGM meeting 13.9.2019

2018 plan

The annual general meeting held at February 1, 2018 decided on the issuance of a maximum of 440,000 option rights that entitle their owners to subscribe for a total of 440,000 A shares in the company, to the group's key persons. During the year 2018 the Board of Directors issued a total of 424,000 option rights, for which 4,000 were returned to the company, resulting in 420,000 option rights issued on a net basis. The numbers and share subscription periods are as follows:

— 110,000 pcs: July 1, 2020 - December 31, 2024
— 106,000 pcs: July 1, 2021 - December 31, 2024
— 84,000 pcs July 1, 2021 - December 31, 2024
— 100,000 Pcs September 1, 2020 - December 31 2024
— 20,000 pcs July 1, 2020 - December 31, 2024

This option program was updated in EGM meeting 13.9.2019

2019D plan

The general meeting of 13.9. amended 14.11.2019 decided on the issuance of a maximum of 72000 option rights that entitle their owners to subscribe for a total of 72,000 A shares in the company, to the group's key persons. During the year 2019 the Board of Directors issued a total of 72,000 option rights The numbers and share subscription periods are as follows:

-72,000 Pcs January, 1, 2023 - December 31, 2023

Key terms and measurement of option plans

Plan	2009	2015	2017	2017B	2018C
Maximum number of options	80,000	250,000	210,000	58,000	266,000
Number of options issued	80,000	250,000	210,000	58,000	266,000
Issued	2009	2015	2017	2017	2018
Vesting period	2009 - 2020	2015 - 2020	2017 - 2020	2017 - 2020	2018 - 2021
Vesting condition	Employment	Employment	Employment	Employment	Employment
Option subscription price	0.7	3.50	3.50	3.50	3.50
Fair value at grant date	-1)	2.25	2.17	2.09	2.09
Total fair value (1,000 EUR)	-1)	562	455	**121**	**556**
Plan	2019A	2019B	2019C	2019D	
Number of options issued	84,000	100,000	20,000	72,000	
Issued	84,000	100,000	20,000	72,000	
Vesting period	2019 - 2021	2019 - 2020	2019 - 2020	2019 - 2023	
Vesting condition	Employment	Employment	Employment	Employment	
Option subscription price	3.50	3.50	3.50	5.00	
Fair value at grant date	2.09	2.02-2.09	2.02	1.69	
Total fair value (1,000 EUR)	175	205	40	122	

The grant-date fair value of options is determined using the Black Scholes option pricing model that takes into account the following key inputs:

— expected fair value of the underlying share EUR 5.0-6.5
— expected volatility 30 percent
— the term of the option 1.3 - 4.7 years

1) No fair value was determined for the 2009 plan, since the vesting period closed in 2011. These options had no impact on the 2018-2019 consolidated financial statements.

Changes in outstanding share options

Pieces	2019	2018	2017	2016
Outstanding at January 1	870,000	609,000	390,000	250,000
Granted during the year	272,000	272,000	299,000	140,000
Forfeited during the year	-2,000	-11,000	-80,000	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at December 31	**1,140,000**	**870,000**	**609,000**	**390,000**
Exercisable at December 31	**0**	**540,000**	**80,000**	**80,000**

The EGM held on 13 September took a decision to amend the terms and conditions of the option programs.

The amendents came effective with respect to an option holde once such option holder approved the amendent.

In case the share options issued are fully exercised, the number of outstanding A shares will increase by 8.1 percent. The subscription prices will be recorded in the Reserve for invested non-restricted equity.

Expenses from share-based payment plans

Total expenses arising from share-based payment plans recognised as part of employee benefits were as follows:

In thousands of euro	2019	2018
Equity-settled share-based payments	-461	-203

8. Other operating expenses

8.1 Accounting policy

Optomed's other operating expenses include:
— expenses other than the cost of goods sold, such as travel, marketing, IT and office expenses.
— losses on the disposal of tangible and intangible assets.

8.2 Breakdown of other operating expenses

In thousands of euro	2019	2018
Travel expenses	-651	-603
Marketing expenses	-489	-509
IT expenses	-385	-257
Office expenses	-189	-315
Other administrative expenses	-504	-489
Research and development expenses	-356	-371
Other fixed expenses	-407	-312
Total	**-2,980**	**-2,855**

Other operating expenses also comprise changes in expected credit losses and realised credit losses.

8.3 Auditor's fees

In thousands of euro	2019	2018
Audit fees	-85	-6
Other assurance services	-	-14
Tax advisory services	-24	-5
Other services	-510	-108
Total	**-618**	**-133**

9. Depreciation, amortisation and impaiment losses

9.1 Accounting policy

Depreciation and amortisation is the systematic allocation of the depreciable amount of a tangible / an intangible asset over its useful life. Optomed generally applies the straight-line method. An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. Refer to *Notes 13. Intangible assets* and *14. Tangible assets*.

9.2 Depreciation, amortisation and impaiment losses by asset category

In thousands of euro	2019	2018
Intangible assets		
Development costs	-848	-701
Customer relationships	-222	-170
Technology	-136	-82
Other intangible assets	-74	-73
Total	**-1,280**	**-1,026**

In thousands of euro	2019	2018
Tangible assets		
Machinery and equipment	-595	-435
Total	-595	-435
Total depreciation and amortisation / owned assets	**-1,875**	**-1,462**

9.3 Impairment losses

The group did not recognise impairment losses on intangible or tangible assets during the financial years 2018-2019.

10. Finance income and expenses

The accounting policies for financial assets and financial liabilities are presented in *Note 17. Financial assets* and *20. Financial liabilities*.

Recognised through profit or loss

10.1 Finance income

In thousands of euro	2019	2018
Foreign exchange gains	23	5
Interest income	3	1
Other finance income	-18	16
Total	**8**	**22**

10.2 Finance expenses

In thousands of euro	2019	2018
Impairment losses	-	-6
Interest expenses	-374	-269
Other finance expenses*	9	-302
Total	**-365**	**-578**
Net finance expenses	**-356**	**-555**

In the financial year 2018 the item Other finance expenses mainly consisted of a loss on sale of shares (EUR 208 thousand). The impairment loss recognised was based on objective evidence of the value of the unlisted share in question.

10.3 Borrowing costs - government loans

Optomed has capitalised under Development costs those borrowing costs incurred from the government loans (Business Finland) granted for development activities, refer also to *Note 20. Financial liabilities*. The capitalisation rate used to determine the amount of borrowing costs to be capitalised was 1 percent for the years 2018-2019, being the interest rate applicable to those loans during the said annual periods. The capitalised costs amounted to EUR 8 thousand (2019) and EUR 9 thousand (2018), which were recorded as a deduction to interest expenses.

11. Income taxes

11.1 Accounting policy

The income tax expense for the period consists of:
— current tax, and
— change in deferred tax assets and deferred tax liabilities.
Income tax is recognized in the income statement, except that the income tax effects of items recognized in other comprehensive income or directly in equity are similarly recognized in other comprehensive income or equity.

The current income tax charge is calculated on the basis of the taxable income determined in accordance with the tax rates and laws enacted (or substantively enacted) in the countries where Optomed operates and generates taxable income. Income taxes are adjusted with any taxes relating to previous financial years. Other taxes not based on income are included within other operating expenses. Current taxes are calculated using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Taxable profit differs from the profit reported in the consolidated income statement, since:
— some income or expense items are taxable or deductible in other years, and/or
— certain income items are not taxable or certain expense items are non-deductible for taxation purposes.

Generally deferred tax is provided using the liability method on:

— temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and
— unused tax losses or unused tax credits.

Deferred tax assets are recognised for deductible temporary differences only to the extent that it is probable that future taxable profits will be available, against which Optomed can utilise deductible temporary differences. The amount and the probability of the utilisation of deferred tax assets are reviewed at the end of each reporting period. A valuation allowance is recognized against the deferred tax asset, if the utilisation of the related tax benefit is no more considered probable.

Deferred tax liabilities are usually recognized in full. However, deferred tax liability is not accounted for, if it arises from:
— the initial recognition of goodwill, or
— the initial recognition of an asset or a liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax liability is recognised for investments in subsidiaries, except to the extent that Optomed is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are determined using tax rates (and laws) that are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled. The applied tax rate is the rate enacted or substantively enacted by the balance sheet date in the respective countries.

11.2 Current tax

In thousands of euro	2019	2018
Current tax for the reporting year	-	18
Current tax adjustments for prior years	-	-
Change in deferred taxes	77	-42
Total	**77**	**-24**

11.3 Reconciliation between income tax expense in profit or loss and tax expense calculated using the Finnish corporate tax rate

In thousands of euro	2019	2018
Profit before income tax	-2,952	-1,303
Tax using the Finnish corporate tax rate (20%)	590	261
Effect of tax rate in foreign jurisdictions	14	19
Unrecognised deferred tax assets on taxable losses	-255	-120
Non-deductible expenses	-14	-49
Share option expense	-92	-41
Depreciation and amortisation not deducted for tax purposes	-240	-181
Use of previously unrecognised tax losses for previous years	-	114
Consolidation-related adjustments	73	-27
Taxes in the income statement	**77**	**-24**

11.4 Income taxes recognised in other comprehensive income

During the years 2018-2019 the Group did not recognise any income taxes in other comprehensive income.

11.5 Movements in deferred tax asset and deferred tax liability balances muutokset

2019

In thousands of euro	At Jan 1, 2019	Business combinations	Recognised through profit or loss	Recognised in equity	Exchange differences and other changes	At Dec 31, 2019
Deferred tax assets						
Right-of-use assets	8	-	-	-	-	8
Total	**8**	**-**	**-**	**-**	**-**	**8**
Deferred tax liabilities	-	-	-	-	-	-
PPA Intangible assets	-599	-	65	-	-	-534
Development costs	-94	-	12	-	-	-82
Total	**-693**	**-**	**77**	**-**	**-**	**-616**
Total deferred tax assets and deferred tax liabilities	**-685**	**-**	**77**	**-**	**-**	**-608**

2018

In thousands of euro	At Jan 1, 2018	Business combinations	Recognised through profit or loss	Recognised in equity	Exchange differences and other changes	At Dec 31, 2018
Deferred tax assets						
Right-of-use assets	6	-	2	-	-	8
Total	**6**	**-**	**2**	**-**	**-**	**8**
Deferred tax liabilities	-	-	-	-	-	-
PPA Intangible assets	-	-649	50	-	-	-599
Development costs	-	-	-94	-	-	-94
Total	**-**	**-649**	**-44**	**-**	**-**	**-693**
Total deferred tax assets and deferred tax liabilities	**6**	**-649**	**-42**	**-**	**-**	**-685**

11.6 Group's tax losses and depreciation and amortisation not deducted for tax purposes

In thousands of euro	Dec 31, 2019	Dec 31, 2018
Tax losses approved by tax authorities	6,129	9,546
Depreciation and amortisation not deducted for tax purposes	2,493	2,253

These tax losses relate to Optomed Plc and its Chinese subsidiaries. The Group has not recognised any deferred tax asset on these losses as at the time of preparation of these financial statements it is unlikely that these entities will generate taxable income against which the losses could be utilised before their expiration dates. The losses will expire in the years 2019-2027.

The depreciation and amortisation not deducted for tax purposes relate to Optomed Plc.

12. Loss per share

12.1 Accounting policy

Basic and diluted earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing:

— the profit (loss) attributable to owners of the parent company
— by the weighted average number of ordinary shares (A and C shares) outstanding during the financial year.

In 2018 the amounts attributable to ordinary equity holders of the parent company are adjusted for the after-tax amounts of preference dividends (B share series). Refer to *Note 19. Capital and reserves* for more information.

In calculating the diluted earnings (loss) per share, the dilutive effect of all dilutive potential ordinary shares is taken into account in the weighted average number of outstanding shares. The group's dilutive potential ordinary shares comprise the share-based incentive plans payable in shares.

12.2 Loss per share

	31.12.2019	31.12.2018
Loss attributable to owners of the parent company (in thousands of euro)	-2,875	-1,327
Weighted average number of shares outstanding during the financial year (pcs)	8,935,654	7,775,473
Basic loss per share (EUR/share)	**-0.32**	**-0.17**

The table presented above reflects changes in the number of shares following the resolution of the Extraordinary General Meeting on 14 November 2019 to split the shares of the company with a ratio 1:20.

Diluted loss per share is not presented, as the results for the financial years 2018 and 2019 were negative and thus the dilutive instruments would have an undilutive effect on loss per share.

13. Intangible assets

13.1 Accounting policy

The group's intangible assets comprise the following: a) goodwill, b) development costs, c) customer relatioships and technology (identified in the Commit acquisition) and d) other intangible assets.

a) Goodwill: The excess of the
— consideration transferred
— amount of any non-controlling interest in the acquired entity, measured at fair value, and
— acquisition-date fair value of any previous equity interest in the acquired entity,
over the fair value of the net identifiable assets acquired is recorded as goodwill. Goodwill reflects e.g. expected future synergies resulting from acquisitions. Goodwill is not subject to amortisation but is tested annually for impairment, or more frequently if there is any indication that it might be impaired, refer to Note 13.3 below. Goodwill is carried at historical cost less accumulated impairment losses.

b) Development costs: Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use. Optomed capitalises such costs when all the following criteria are met:
— Optomed can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale.
— Optomed intends to complete the intangible asset and use or sell it.

— Optomed is able to use or sell the intangible asset.
— Optomed is able to demonstrate how the intangible asset will generate probable future economic benefits.
— The Group has adequate technical, financial and other resources available to complete the development and to use or sell the intangible asset
— Optomed is able to measure reliably the expenditure attributable to the intangible asset during its development.

Capitalised development costs comprise all directly attributable costs (mainly labour) necessary to prepare the asset to be capable of operating in the manner intended. Optomed has also:

— capitalised borrowing costs arisen from government loans granted for development purposes, and
— deducted an applicable amount of major government grants received for development activities from the carrying amount.
Development expenditure that was initially expensed is not capitalised at a later date. The estimated useful life for development costs is 10 years.

Research is original and planned investigation Optomed undertakes with the prospect of gaining new scientific or technical knowledge and understanding. Such costs are expensed as incurred.

c) Customer relationships and technology: these assets were measured at fair value at the acquisition date using the multi-period excess earnings method and the relief-from-royalty method. Their estimated remaining useful lives are 10 years.

d) Other intangible assets: An intangible asset is recognised only if it is probable that the expected future economic benefits that are attributable to the asset will flow to Optomed, and the cost of the asset can be measured reliably. All other expenditure is expensed as incurred. Group's other intangible assets mainly comprise patents and trademark rights, which are amortised on a straight-line basis over their estimated useful lives (10 years).

Optomed reviews the amortisation periods and the amortisation methods applied at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly. The changes of useful lives can be due to e.g. technical development, changes in demand or competition, for example.

The Group assesses, at each reporting date, whether there is an indication that an intangible asset other than goodwill may be impaired. If any indication exists, Optomed estimates the asset's recoverable amount. An impairment loss is recognised in the income statement when the carrying amount of an asset exceeds its recoverable amount.

13.2 Assumptions and estimation uncertainties – development costs

Optomed capitalises development expenditure as an intangible asset where the related criteria are met (refer to *13.1 Accounting policy* above). This requires management to make judgement on when all of the criteria for capitalisation are met and when to cease capitalisation and start amortising the asset. The point at which development costs meet the criteria for capitalisation is dependent on Optomed management's judgement of, for example, the point at which technical feasibility is demonstrable.

13.3 Reconciliation of carrying amounts

At December 31, 2019

In thousands of euro	Goodwill	Development costs	Customer relationships	Technology	Other intangible assets	Total
Cost						
Balance at January 1	4,256	7,353	2,222	1,023	543	15,397
Business combinations	-	-	-	-	-	-
Additions	-	894	-	-	316	1,210
Disposals	-	-	-	-	-	-
Effect of movements in exchange rates	-	-	-	-	-	-
Balance at December 31	4,256	8,246	2,222	1,023	859	16,606
Accumulated amortisation and impairment losses						
Balance at January 1	-	-2,181	-170	-82	-168	-2,601
Amortisation	-	-848	-222	-102	-172	-1,344
Impairment losses	-	-	-	-	-	-
Effect of movements in exchange rates	-	-	-	-	-	-
Balance at December 31	-	-3,029	-392	-184	-340	-3,945
Carrying amount at Jan 1	**4,256**	**5,172**	**2,051**	**942**	**376**	**12,796**
Carrying amount at Dec 31	**4,256**	**5,218**	**1,829**	**840**	**519**	**12,662**

At December 31, 2018

EUR, thousand	Goodwill	Development costs	Customer relationships	Technology	Other intangible assets	Total
Cost						
Balance at January 1	-	6,295			261	6,557
Business combinations	4,256		2,222	1,023	44	7,545
Additions	-	1,058	-	-	238	1,296
Balance at December 31	4,256	7,353	2,222	1,023	543	15,397
Accumulated amortisation and impairment losses						
Balance at January 1	-	-1,480	-	-	-95	-1,575
Amortisation	-	-701	-170	-82	-73	-1,026
Balance at December 31	-	-2,181	-170	-82	-168	-2,601
Carrying amount at Jan 1	**-**	**4,816**	**-**	**-**	**166**	**4,982**
Carrying amount at Dec 31	**4,256**	**5,172**	**2,051**	**942**	**376**	**12,796**

Refer to Note 4. Business combination for further information on the Commit acquisition effected in 2018.
The research and development costs expensed amounted to EUR 1,774 thousand (2019) and EUR 1,557 thousand (2018), mainly comprising personnel expenses.

13.4 Impairment testing of goodwill

13.4.1 Accounting policy

For the purposes of impairment testing goodwill is allocated to the cash-generating units (CGUs) or the groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. A cash-generating unit is the smallest identifiable group of assets in Optomed that generates inflows that are largely independent from the cash inflows from other assets or groups of assets. A cash-generating unit is impaired when its carrying amount exceeds its recoverable amount. The recoverabe amount is:

— the higher of the asset's or CGU's fair value less costs of disposal, and
— its value in use.

Optomed determines recoverable amounts based on value-in-use calculations prepared using discounted future net cash flows.

13.4.2 Assumptions and estimation uncertainties

At each balance sheet date Optomed management assesses if there is any indication of impairment of goodwill (or other intangible, tangible asset or right-of-use asset). Review is based on indicators that measure economic performance, such as Group's management reporting as well as economic environment and market follow-up.
Such indications may include, among others:

— unexpected changes in significant factors underlying impairment tests (revenues, profitability levels and changes in prevailing interest rates), and
— changes in market conditions.
The recoverable amount determined in the testing process is based on assumptions and estimates made by management on future sales, production costs, sales growth rate and discount rate, among others.

Optomed has allocated the goodwill arisen from the Commit acquisition to the Software operating segment. This segment establishes a single cash-generating unit. The carrying amount of the assets amounted to EUR 7,864 thousand as at December 31, 2019, including the goodwill of EUR 4,256 thousand.

In impairment testing the recoverable amount of the Software segment is determined based on value-in-use calculations. The calculations use cash flow projections approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated steady growth rate of 1.8%. The cash flow projections exclude expansion investments. The discount rate is defined as WACC (weighted average cost of capital), which reflects the total cost of equity and debt while considering the asset-specific risks. The pre-tax discount rate was 13.6% (14.8%) and the post-tax discount rate 11.2% (12.0%.)

The sensivity analysis is prepared in respect of the discount rate and the terminal growth rate applied beyond the five-year projection period. The changes in these key assumptions - holding other assumptions constant - would result in the recoverable amount of the tested assets to equal their carrying amount as at December 31, 2019:

— The pre-tax discount rate should increase by 3.5 percentage point.
— The terminal growth rate should decrease by 6.9 percentage point.

Based on the impairment test carried out as at December 31, 2019 the goodwill was not impaired.

14. Tangible assets

14.1 Accounting policy

Tangible assets acquired by Optomed held for use are stated in the balance sheet at their cost. The cost comprises directly attributable incremental costs incurred in their acquisition and installation. Subsequently tangible assets are carried at cost, less any accumulated depreciation and any accumulated impairment losses. Ordinary repairs and maintenance costs are expensed during the reporting period in which they are incurred. Government grants are accounted for by reducing the carrying amount of the asset. The grant is then recognised in profit or loss over the useful life of the asset by way of a reduced depreciation charge.

Depreciation is charged so as to write off the cost of assets using the straight-line method, over their estimated useful lives, as follows:

— Production machinery and equipment: six years
— Other machinery and equipment: three years
— Office furniture: three years
— Cars: three years

Expected useful lives and residual values are reviewed at least at each financial year-end and if they differ significantly from previous estimates, the useful lives are revised accordingly. Recognition of depreciation is discontinued when a tangible asset is classified as held for sale. The Group assesses, at each reporting date, whether there is an indication that a tangible asset may be impaired. If any indication exists, Optomed estimates the asset's recoverable amount. An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount.

The gain or loss arising on the disposal or retirement of a tangible asset is determined as the difference between any net sale proceeds and the carrying amount of the asset and is recognised in other operating income or other operating expenses.

14.2 Reconciliation of carrying amounts

	Machinery and equipment	
In thousands of euro	2019	2018
Cost		
Balance at January 1	1,729	1,185
Business combinations	0	274
Additions	262	270
Balance at December 31	1,992	1,729
Accumulated depreciation and impairment losses		
Balance at January 1	-990	-555
Depreciation	-595	-435
Balance at December 31	-1,585	-990
Carrying amount at January 1	**739**	**631**
Carrying amount at December 31	**406**	**739**

Refer to *Note 15. Leases for disclosures* on Group's tangible assets acquired under lease agreements.

15. Leases

15.1 Accounting policy

The Group acts as a lessee leasing mainly business premises, IT equipment as well as other machinery and equipment. As a general rule, Optomed recognises a leased asset (right-of-use asset) and a lease liability for all leases, except for short- term leases and leases of low-value items (the accounting treatment is described below). The Group assesses whether a contract is or contains a lease at inception of a contract. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises:

— the amount of the initial measurement of the lease liability
— any lease payments made at or before the commencement date, less any lease incentives (e.g. lease-free months)
— any initial direct costs incurred by Optomed, and
— an estimate of restoration costs to be incurred by Optomed.

After the commencement date the right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for certain remeasurements of the lease liability. The right-of-use asset is depreciated using the straight-line method, from the commencement date to the earlier of the end of the useful life of the right-of-use asset, or the end of the lease term. The estimated useful life for the business premises applied by Optomed is three years. The right-of-use asset is tested for impairment where necessary and any impairment loss identified is recorded in profit or loss.

Initially the lease liability is measured at the present value of the lease payments that are not paid at the commencement date. The discount rate used by the Group is Optomed's incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise:
— fixed payments, including in substance fixed payments
— variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date of the contract
— amounts expected to be payable under a residual value guarantee, and
— the exercise price under a purchase option that the Group is reasonably certain to exercise.

Subsequently the lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When a lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Optomed has elected not to recognise right-of-use assets and lease liability for:
— short-term leases (that have a lease term of 12 months or less)
— leases of low-value assets (each asset with a value of approximately EUR 5,000 or less when new). Such assets include IT equipment as well as other machinery and equipment.

The Group recognises the lease payments associated with above-mentioned leases as an expense on a straight-line basis over the lease term.

15.2 Management judgements

Some business facility leases of the Group include termination options. Optomed uses such terms in its contract management to maximise operational flexibility for its business. Termination options are considered on a case-by-case basis following a regular management assessment. The factors considered include, for example, contractual terms and conditions for optional periods compared with market rates, the importance of the underlying asset to Optomed's operations as well as termination and replacement costs.

15.3 Amounts recognised in income statement

In thousands of euro	2019	2018
Expense relating to leases of low-value assets[1] (that are not short-term leases)	-6	-5
Depreciation charge for right-of-use assets by class of underlying asset (business premises) (included in Depreciation, amortisation and impairment losses in the income statement)	-386	-349
Interest expense on lease liabilities (included in Finance expenses)	-30	-36

15.4 Amounts presented in cash flow statement

In thousands of euro	2019	2018
Total cash outflow for leases	-385	-376

15.5 Leased tangible assets

In thousands of euro	2019	2018
Additions to right-of-use assets	378	840
Carrying amount at the end of the financial year	1,075	1,084

Leased tangible assets comprise business premises and are presented as a separate line item Right-of-use assets in the consolidated balance sheet.

15.6 Lease liabilities

In thousands of euro	2019	2018
Current	414	393
Non-current	699	727
Total	**1,113**	**1,120**

The weighted average Optomed's incremental borrowing rate applied for discounting purposes was 3.2%.

The above liabilities are presented on the line item Lease liabilities (non-current / current) in the consolidated balance sheet, based on their maturity. The maturity analysis is disclosed in *Note 22.5 Liquidity risk.*

16. Inventories

16.1 Accounting policy

Inventories are stated at the lower of cost and net realisable value. The cost of ready purchased products consists of the purchase price, including direct transportation, processing and other costs.
Cost is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

In thousands of euro	2019	2018
Raw materials and consumables	2,468	1,121
Total	**2,468**	**1,121**

Optomed has not recognised any impairment losses on inventories in the financial years 2018-2019.

17. Financial assets

17.1 Accounting policy

Optomed classifies financial assets as follows:
— financial assets measured at fair value through profit or loss (FVTPL)
— financial assets measured at amortised cost, and
— financial assets measured at fair value through other comprehensive income (FVOCI).

Classification of financial assets is made based on their purpose of use upon initial recognition. Classification relies on the objectives of Optomed's business model and the contractual cash flows from financial assets, or by applying the fair value option upon initial recognition. Optomed recognises all its financial assets at amortised cost.

All purchases and sales of financial assets are recognised at the trade date. For financial assets not carried at fair value through profit or loss, transaction costs are included in the initial carrying amount. Financial assets are derecognised when the Group loses the rights to receive the contractual cash flows on the financial asset or it has transferred substantially all the risks and rewards of ownership outside the Group.

Financial assets measured at amortised cost

Optomed recognises all trade receivables that are non-derivative assets at amortised cost. In the Group trade receivables are held within a business model whose objective is to collect the contractual cash flows, and those cash flows that are solely payments of principal and interest. Trade receivables are current assets that Optomed has the intention to hold for less than 12 months from the end of reporting period. Assets classified in this category are measured at amortised cost using the effective interest (EIR) method. The carrying amounts of current trade receivables are expected to substantially equal their fair values.

Optomed recognizes a loss allowance for expected credit losses on financial assets that are measured at amortised cost. The expected credit losses on trade receivables are recorded based on Optomed's historical knowledge on trade receivables at default and payment delays due to financial difficulties. The loss allowance is assessed both on an individual basis and collectively. The expected loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's effective interest rate. This adjustment is recognised in other operating expenses and as a deduction to the carrying amount of the receivable.

All realised credit losses are recognised in profit or loss. A credit loss is reversed in a subsequent period, if the reversal can be related objectively to an event occurring after the impairment was recognised. Optomed did not recognise credit losses during the financial years 2018-2019.

Cash and cash equivalents

The Group's cash and cash equivalents consist of cash on hand, demand deposits and short-term, highly liquid investments. Items qualifying as cash equivalent have a maturity of three months or less from the date of acquisition.

17.2 Carrying amounts - at amortised cost

Current financial assets

In thousands of euro	Note	2019	2018
Trade receivables			
Recourse factoring	22	1,242	889
Other trade receivables	22	1,655	1,982
Total trade receivables		2,897	2,871
Cash and cash equivalents		18,866	2,000
Total		**21,763**	**4,871**

The Group had no non-current financial assets at the end of the financial years 2018-2019.

17.3 Cash and cash equivalents

In thousands of euro	2019	2018
Cash and bank accounts	18,866	2,000
Total	**18,866**	**2,000**

18. Other receivables

In thousands of euro	2019	2018
Prepayments and accrued income	924	337
Other	304	190
Total	**1,228**	**528**

19. Capital and reserves

19.1 Accounting policy

The Group classifies the instruments it has issued either as equity instruments or financial liabilities based on their nature.
— An equity instrument is any contract that evidences a residual interest in the assets of Optomed after deducting all of its liabilities.
— A financial liability is an instrument that obligates Optomed to deliver cash or another financial asset, or the holder has a right to demand cash or another financial asset.

Optomed evaluates the terms of an issued compound instrument to determine whether it contains both a liability and an equity component. Such components are classified separately as financial liabilities, financial assets or equity instruments in accordance with the substance of the contractual arrangement.

19.2 Share capital and share series

19.2.1 Accounting policy

The share capital consists of the parent company's ordinary shares classified as equity. The subscription price of a share received by the company in connection with share issues is credited to the share capital, unless it is provided in the share issue decision that a part of the subscription price is to be recorded in the Reserve for invested non-restricted equity. Transaction costs directly attributable to the issue of new shares are recorded in equity as a deduction, net of tax, from the proceeds.

The share capital of Optomed Plc amounted to EUR 80 thousand at December 31, 2019 and 19 thousand at December 31.12.2018. The share capital consists of one share class.

The shares have no nominal value. All issued shares have been fully paid. Each share carries one vote.

The company had three share series at the beginning of 2018 A, B and C series. The redemption clause and the consent clause of the Articles of Association apply to all share classes. Furthermore, the Board of Directors of Optomed Plc shall convert a number of the B shares or C shares (of the B share holder or C share holder) into A shares by using a conversion ratio of 1:1 per request of the B share holder or the C share holder in question. Each B share and C share were converted into A shares by using a conversion ratio of 1:1 upon the closing of an Initial Public Offering (IPO) in December 5th 2019.

19.2.2 Movements in share numbers and group's equity

The table below discloses changes in the number of shares and respective changes in Group's equity (A and C share classes).

	2019					
	Pieces				*In thousands of euro*	
	A-series	B-series (liability)	C-series	**Total**	Share capital	Reserve for invested non-restricted equity
At January 1, 2019	7,421,640	280,560	445,500	**8,147,700**	19	18,549
Share issue: registered June 5, 2019	600,000	-	-	**600,000**	-	3,000
Combination of share series December 5, 2019	726,060	-280,560	-445,500	**0**	-	-
Share issue: registered December 12, 2019	5,255,444	-	-	**5,255,444**	61	15,792
At Dec 31, 2019	**14,003,144**	**0**	**0**	**14,003,144**	**80**	**37,341**

	2018					
	Pieces				*In thousands of euro*	
	A-series	B-series (liability)	C-series	**Total**	Share capital	Reserve for invested non-restricted equity
At January 1, 2018	6,321,640	280,560	445,500	**7,047,700**	19	13,049
Share issue	1,100,000	-	-	**1,100,000**	-	5,500
At December 31, 2018	**7,421,640**	**280,560**	**445,500**	**8,147,700**	**19**	**18,549**

The Extraordinary General Meeting resolved on 14 November 2019 to split the shares of the company with a ratio 1:20. The tables presented above reflect this change in the number of shares.

19.3 Treasury shares

19.3.1 Accounting policy

The consideration paid for treasury shares, including any directly attributable transaction costs (net of taxes), is deducted from equity, until the shares are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable transaction costs and net of taxes, is directly recognised in equity.

19.4 Dividends

19.4.1 Accounting policy

Dividend distribution to the parent company's shareholders is recognised as a liability in the consolidated balance sheet in the period in which the dividends are approved by the company's Annual General Meeting.

Under the Finnish Limited Liability Companies Act the amount of capitalised development costs (accounted for in accordance with the Finnish Accounting Act) is deducted from unrestricted equity in calculating distributable funds.

Optomed Plc has distributed dividends on cumulative preference shares (B share series) at the combination of share series on December 5, 2019 and the preference share liability is fully paid.

19.5 Reserves

Reserve for invested non-restricted equity

The reserve for invested non-restricted equity comprises other equity investments and that part of the share subscription price that has not specifically been allocated to share capital.

Share premium

The share premium accrued under the previous Finnish Limited Liability Companies Act. Under the current Act the share premium is classified as restricted equity and may no longer increase. The share premium may be reduced in accordance with the rules applying to decreasing share capital and can be used to increase the share capital as a reserve increase.

Translation differences

The reserve includes translation differences arisen from the IFRS post-transition date (January 1, 2016) translation of the financial statements of foreign operations into euro.

Retained earnings

Retained earnings are earnings accrued over the previous financial years that have not been transferred to equity reserves or issued as dividends to owners.

19.6 Capital management

Optomed's objective in capital management is to maintain optimum capital structure in order to secure normal operating conditions and to optimise cost of capital to create value to shareholders. For capital management purposes, Optomed manages equity as indicated in the consolidated balance sheet. The equity is mainly influenced through share issues and restructuring of loans and borrowings. The group is not subject to externally imposed capital requirements. Group management and the Board of Directors of the parent company monitor group's capital structure and liquidity development. The objective of this monitoring is to ensure group's liquidity and flexibility of capital structure in order to fulfil the growth strategy.

Optomed monitors the development of capital structure based on equity ratio, which was:

— 57.53% (at December 31, 2019, Group)
— 34.65% (at December 31, 2018, Group)

Equity ratio is also the financial covenant of Optomed's borrowing facilities (line item Borrowings from financial institutions). For covenant accounting purposes equity ratio is calculated following FAS (Finnish Accounting Standards), based on the related terms of the borrowings. The covenant was breached at December 31, 2018, refer to *Note 20.4 Financial covenant and covenant breach*.

20. Financial liabilities

20.1 Accounting policy

Optomed classifies financial liabilities as follows:

— financial liabilities measured at amortised cost, and
— financial liabilities measured at fair value through profit or loss (FVTPL).

Optomed did not use derivative instruments during the years 2018-2019, and the Group had no other financial liabilities at fair value through profit or loss at the end of financial years 2018-2019.

Financial liabilities at amortised cost

Financial liabilities are initially recognised at fair value. Transaction costs are included in the original carrying amount. Subsequently these financial liabilities are measured at amortised cost using the effective interest rate (EIR) method. A financial liability is classified as current if Optomed does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. In respect of loans and borrowings current financial liabilities comprise the portion falling due within less than 12 months and repayments in accordance with the repayment plans.

Financial liabilities may be interest-bearing or non-interest-bearing. The Group's all financial liabilities carry interest.

A financial liability (or part of the liability) is not derecognised until the liability has ceased to exist, that is, when the obligation identified in a contract has been fulfilled, cancelled or is no longer effective.

Borrowing costs

Optomed capitalises borrowing costs that are directly attributable to creation of a qualifying asset as an addition to the cost of that asset.

— Borrowing costs are interest and other costs that Optomed incurs in connection with the borrowing of funds.
— A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use.

Optomed considers capitalised development costs to be a qualifying asset. Consequently, the Group recognises those borrowing costs incurred from the government loans (from Business Finland), granted for development activities, as an addition to the carrying amount of the development cost. The capitalised borrowing costs are recorded as a deduction to interest expenses. Other borrowing costs are expensed in the period in which Optomed incurs them. Optomed ceases capitalising borrowing costs when the development project is substantially complete.

For cash flow statement purposes Optomed classifies cash flows related to capitalised borrowing costs as operating activities.

20.2 Financial liabilities measured at amortised cost

In thousands of euro	2019	2018
Non-current financial liabilities		
Borrowings from financial institutions	5,104	-
Government loans	2,998	2,993
Lease liabilities	699	727
Preference share liability	-	694
Total	**8,800**	**4,414**
Current financial liabilities		
Borrowings from financial institutions	1,766	7,010
Government loans	60	204
Lease liabilities	414	393
Trade payables	1,667	732
Total	**3,907**	**8,339**
Total financial liabilities	**12,707**	**12,753**

The preference share liability relates to the B share series (preference shares) which are classified as a financial liability and consequently the annual cumulative dividend is accounted for as an interest expense. This was paid in 2019. Refer to *Notes 19.2 Share capital and share series* and *19.4 Dividends*.

The company mortgages related to the borrowings from financial institutions are disclosed in *Note 23. Contingent assets*, *contingent liabilities and commitments*.

20.3 Changes in financial liabilities

During the financial years 2018-2019 Optomed agreed with its financiers on the changes made to repayment terms (borrowings from financial institutions and goverment loans). The changes related to the repayment schedule. Furthermore, the repayment period for the government loans were extended.

In the financial year 2019 the Group adjusted the repayment schedule for borrowings from financial institutions, however, the repayment dates remained unchanged.

20.4 Financial covenant and covenant breach

Optomed's borrowings from financial institutions contain a financial covenant (equity ratio) and Optomed also has to meet certain key operative targets The related liabilities amounted to EUR 6,698 thousand (at December 31, 2019) and EUR 7,006 thousand (at December 31, 2018). The borrowings will be repaid in accordance with the repayment schedule.

Optomed has to comply with the financial covenant terms specified in the loan agreement terms at the financial year-end. Equity ratio is calculated using the agreed formula. The table below summarises the Group's financial covenant term and compliance over the financial years 2018-2019.

	Equity ratio		
	Covenant term	**Actual ratio**	**Applicable level**
At December 31, 2018	35%	34.65%	Optomed Group[1]
At December 31, 2019	25%	57.53%	Optomed Group[1]

[1)] ***The change in the covenant compliance level was due to the Commit acquisition.***

For covenant accounting purposes equity ratio is calculated following FAS (Finnish Accounting Standards), based on the related terms of the borrowings.

Optomed was in compliance with the covenant as at December 31, 2019. Optomed breached the financial covenant as at December 31, 2018 and consequently the related borrowings from financial institutions were classified as current as at December 31, 2018. Refer to *Note 22.5 Liquidity risk* for more information.

20.5 Government loans - borrowings costs

Optomed has capitalised borrowing costs incurred from the government loans granted for development activities in the balance sheet under Development costs. Details are disclosed in *Note 10.3 Borrowing costs - government loans*.

20.6 Fair values - financial liabilities measured at amortised cost

Optomed considers that the carrying amounts of the financial liabilities measured at amortised cost substantially equal to their fair values. This estimate corresponds to the fair value hierachy Level 3, as the measurement of the said liabilities is based on Optomed management view. The fair value hierarchy is presented in *Note 1.2.3 Fair value measurement*.

21. Other payables

In thousands of euro	2019	2018
Accrued expenses and prepaid income	2,911	1,397
Other	739	752
Total	**3,650**	**2,148**

22. Financial risk management

22.1 Principles of financial risk management

Optomed's financial risks consist of liquidity risk, interest rate risk, foreign exchange transaction risk, foreign exchange translation risk and counterparty credit risk. Financial risks are managed centrally, in order to align financial risk management with Optomed's strategy and ensure access to debt financing.

The Group manages centrally loan negotiations for the parent company and the subsidiaries, for example, and projects the financing requirements for the next 12 months on a rolling basis, in order to ensure long-term liquidity. The Group also handles negotiations in respect of letters of credit and recourse factoring on a centralised basis.

The objective is to ensure that the Group has liquidity for outgoing commitments at all times and that the financing portfolio is well diversified. The financing portfolio should also be flexible in case of changes in Optomed's business operations.

The Board of Directors of the parent company has the following responsibilities:

— reviewing and approving the Group's risk management policy and the Group's strategy concerning external financing and financial risk management on an annual basis

— evaluating and approving new financial instruments and arrangements

— delegating the authority to undertake financial risk management and financing activities to the CEO and CFO

— reviewing the Group's risk exposures on a monthly basis, and

Currently letters of credit, recourse factoring agreements as well as non-current loans and borrowings from financial institutions are the only approved financial instruments.

Subsidiaries should maximise their long-term performance by optimising their working capital structure. Basic financial management operations are delegated to the subsidiaries, such as payment transactions and debt collection.

22.2 Foreign exchange transaction risk and translation risk

Due to its international operations, Optomed is exposed to transaction risks arising from foreign currency positions and risks from investments denominated in foreign currencies translated into the functional currency of the parent company.

The Group's foreign exchange translation risk is defined as the negative effect of movements in exchange rates on the value of a foreign subsidiary's assets when those values are translated into the reporting currency of the parent company. The Group has subsidiaries in China. So far, the translation difference has not been a significant item, and thus the Group has not hedged this risk by using currency derivative instruments.

Optomed's trade receivables and trade payables may be denominated in foreign currencies and thus prone to foreign exchange transaction risk. Foreign exchange transaction risk may also arise from tangible assets subject to price changes due to volatility in exchange rates. The Group has foreign currency positions denominated in Chinese Renminbi (CNY) and US Dollar (USD). Transaction is managed by actively monitoring currency positions, i.e. absolute amounts. Should the absolute amounts for currency positions increase significantly, Optomed may consider using currency derivative instruments for hedging purposes, where necessary.

22.2.1 Currency risk exposure

In thousands of euro	USD	CNY
At December 31, 2019		
Gross trade receivables	104	640
Trade payables	689	-
Total	**793**	**640**
At December 31, 2018		
Gross trade receivables	83	1,046
Trade payables	477	8
Total	**560**	**1,054**

22.2.2 Sensitivity analysis on exchange rate movements

In thousands of euro	Income statement strenghtening	Income statement weakening
At December 31, 2019		
Gross trade receivables		
+/- 10% change in USD	10	-10
+/- 10% change in CNY	64	-64
Trade payables		
+/- 10% change in USD	-69	69
+/- 10% change in CNY	-	-
Total net effect	**6**	**-6**
At December 31, 2018		
Gross trade receivables		
+/- 10% change in USD	8	-8
+/- 10% change in CNY	105	-105
Trade payables		
+/- 10% change in USD	-48	48
+/- 10% change in CNY	-1	1
Total net effect	**64**	**-64**

22.2.3 Average rates and closing rates for financial years used in consolidated financial statements used in consolidated financial statements

	Average 2019	Closing 2019	Average 2018	Closing 2018
EUR/USD	0.89	0.90	0.85	0.87
EUR/CNY	0.13	0.13	0.13	0.13

22.3 Interest rate risk

Optomed's interest rate risk is primarily derived from outstanding floating-rate borrowings from financial institutions. Interest rate risk is not significant. The Group's revenues and operational cash flows are to a large extent independent of fluctuations in interest rates.

Optomed's loans and borrowings carry variable interest. The Group had interest-bearing financial liabilities totaling EUR 9,927 thousand (at December 31, 2019) and EUR 10,207 thousand (at December 31, 2018). Those liabilities are linked to Euribor rates (0 to 12 months). The weighted average interest rate was 0.50% (2019) and 0.50% (2018).

Optomed manages interest rate risk by projecting its outstanding net debt for the next 12 months on a rolling basis. In addition, the Group uses likely interest rate scenarios to identify the effect interest rate risk could have on Optomed's result and key figures. As the interest rate risk is not significant for the Group, Optomed has not used derivative instruments to hedge financial liabilities against changes in market interest rates.

The following interest rate sensitivity analysis presents how Optomed's interest expenses on borrowings from financial institutions would increase following a change of 1 percentage point (100 basis points) in reference interest rates. In respect of the government loans a change of 3 percentage points was applied since only a change of at least 3 percentage points would increase the Group's interest expenses, based on the loan terms. The effect of decrease in interest expenses – either by 1 (one) or 3 (three) percentange points – is excluded from the sensitivity analysis, as the reference rate cannot be negative.

22.3.1 Cash flow sensitivity due to interest rates

In thousands of euro	Income statement, 100 bps increase	Income statement, 300 bps increase
At December 31, 2019		
Borrowings from financial institutions	66	
Government loans		95
At December 31, 2018		
Borrowings from financial institutions	70	
Government loans		95

22.4. Credit risk and counterparty risk

Credit and counterparty risk arise from a counterparty not being able to fulfil its contractual requirements, and thus resulting in a loss to the creditor. Trade receivables are the main driver of credit and counterparty credit risk. Counterparty risk results from receivables from companies with which the Group provides credit. Optomed considers it has no significant credit risk concentrations. Credit risk is actively managed, in order to avoid such concentrations.

Optomed manages counterparty credit risk by using credit limits approved by the Board of Directors and only dealing with authorized counterparties when it comes to financing activities such as letters of credit. Optomed has policies in place to ensure that products are sold and services provided only to those clients with appropriate credit history. Client credit data is reviewed prior to the signing of the agreement. Receivable collection and follow-up are performed actively and streamlined by the recourse factoring agreement with a Finnish financial institution. In the recourse factoring arrangement the financial institution manages collection activities and partly guarantees receivables but the final risk remains with Optomed. The arrangement reduces the Group's credit risk and improves liqiuidity. The Group also manages counterparty credit risk with advance payments and letters of credit. The maximum exposure to credit risk at the end of the financial year is the carrying amount of financial assets.

The following tables disclose credit exposure per geographical area, aging analysis for trade receivables and related expected credit losses (ECL). The loss allowance has been recorded in accordance with the tables presented below.

22.4.1 Credit exposure per geographical area

	Carrying amount	
In thousands of euro	**2019**	**2018**
Gross trade receivables from companies		
Finland	814	690
China	892	1,046
Other	1,171	262
Total	**2,877**	**1,998**

22.4.2 Exposure to credit risk and loss allowance

In thousands of euro	Gross carrying amount	Weighted av. loss rate %	Loss allowance
At December 31, 2019			
Current (not past due)	921	0.5%	5
Past due	-		
1-30 days	220	1.5%	3
31-60 days	4	4%	0
61-90 days	8	9%	1
More than 90 days past due	600	12%	72
Total	**1,752**		**81**
At December 31, 2018			
Current (not past due)	1,885	0.5%	9
Past due			
1-30 days	17	1.5%	0
31-60 days	54	4%	2
61-90 days	14	9%	1
More than 90 days past due	29	12%	3
Total	**1,998**		**16**

22.4.3 Reconciliation of loss allowance

In thousands of euro	2019	2018
Balance at January 1	16	17
Amounts written off	-	-
Net remeasurement of loss allowance	64	-1
Balance at December 31	**81**	**16**

Changes in expected credit losses and realised credit losses are recognised in the income statement under Other operating expenses.

22.4.4 Recourse factoring (insured receivables)

In thousands of euro	2019	2018
Carrying amount at December 31		
Trade receivables, recourse factoring	1,242	889
Total	**1,242**	**889**

In the recourse factoring arrangement, Optomed transfers trade receivables to be collected by a financial institution and thereby receives credit insurance covering a large part of the carrying amount of trade receivables. Owing to the nature of the arrangement and the extent of the insurance, receivables do not include significant credit risk and consequently those trade receivables are excluded from expected credit losses (ECL) accounting.

22.5 Liquidity risk

Liquidity risk is incurred from a potential mismatch between Optomed's liquid assets and financing requirements. The company adheres to careful liquidity risk management and aims to ensure sufficient liquidity even in difficult circumstances. The Group manages liquidity risk by ensuring that non-current liabilities have different maturities and by limiting individual receivables. Optomed also aims at ensuring liquidity through credit instruments. The liquidity of the company is monitored and forecasted over a 12-month period and, if necessary, short-term liquidity is monitored. Liquidity is followed up on a rolling basis and any changes are addressed promptly.

The liquidity reserve comprises highly liquid assets that can be used without delay to cover financial obligations at all times. Optomed aims at ensuring that it always has the amount of liquid funds available to fund operations. The liquidity reserve includes the following components: cash and cash equivalents, liquid investments and credit limits.

The table below analyses financial liabilities based on their contractual maturities. The amounts disclosed are undiscounted, comprising both interest payments and repayments of capital.

22.5.1 Contractual maturities of financial liabilities

In thousands of euro	**Total**	0-3 months	3-12 months	2-3 years	4-5 years	Over 5 years
At December 31, 2019						
Borrowings from financial institutions	6,698	397	1,190	3,333	1,778	-
Government loans	3,057	-	335	1,075	865	783
Lease liabilities	1,113	175	524	414	-	-
Trade payables	1,667	1,667	-	-	-	-
Total	**12,535**	**2,239**	**2,049**	**4,822**	**2,642**	**783**
At December 31, 2018						
Borrowings from financial institutions	7,052	7,052	-	-	-	-
Government loans	3,306	46	187	1,007	1,121	946
Lease liabilities	1,186	106	319	671	90	-
Trade payables	732	732	-	-	-	-
Total	**12,277**	**7,937**	**507**	**1,677**	**1,211**	**946**

The financial covenant for the borrowings from financial institutions was breached at December 31, 2018. Consequently, the borrowings in question were reclassified 31.12.2018 as current financial liabilities in the consolidated balance sheet and are presented in the category 0-3 months in the above table. Owing to the covenant breach, the financial institution was entitled to demand immediate repayment of those borrowings. Optomed contacted the lender regarding the convenant breach. The counterparties had no requirements in respect of the borrowings and the Group incurred no additional expenses. The covenant breach did not result in renegotiation of the terms of the borrowings. The equity ratio must be at least 25% until the end of 2020 and 35% thereafter. If the covenants are breached, the financial institution has the right to immediately terminate the contracts or require repayment and/or alternatively the right to increase the marginal for the borrowings and obligations by 2 percentage points. The covenant agreement is in force as long as Optomed Plc has unpaid debt, obligations or other commitments. The Group carried out a share issue in spring 2019, and autumn 2019.

In 2018 Optomed changed repayment programs and the changes affect the future payments. The loan periods were not extended but repayment amounts were modified to be better aligned with Optomed's liquidity. It is not possible to repay the borrowings at an earlier date than agreed in the related terms. The lender has no right to demand for repayment, except in the event of a breach of the covenant (refer to Note 20.4 Financial covenant and covenant breach). The borrowings can be renegotiated.

Optomed has a financial liability related to the share arrangements (preference share liability) that had no maturity. The holders of the B shares in question could have requested the conversion of these shares into A shares any time. Therefore this liability is excluded from the above maturity analysis. The preference share liability was paid off at the combination of the share series in 2019. Refer to *Note 19. Capital and reserves* for further information.

23. Contingent liabilities, contingent assets and commitments

23.1 Accounting policy

A contingent liability arises when:
— there is a possible obligation that arises from past events and whose existence will be confirmed by a future event that is outside the control of Optomed
— there is a present obligation that arises from past events, but probably will not require an outflow of resources, or
— Optomed cannot make a sufficiently reliable estimate of the amount of a present obligation.
Contingent liabilities are not recognised, but require disclosure unless the possibility of outflow is remote.

A contingent asset arises when:
— the inflow of economic benefits to Optomed is probable, but not virtually certain, and
— occurrence depends on an event outside the control of Optomed.

Contingent assets require disclosure only. If the realisation of income is virtually certain, the income item is recognised.

23.2 Collaterals

In thousands of euro	2019	2018
Liabilities secured under company mortgages given by Optomed[1]		
Borrowings from financial institutions, current	7,826	525
Borrowings from financial institutions, non-current	2,100	9,691
Total	**9,927**	**10,216**
Collaterals given by collateral type		
Borrowings from financial institutions, company mortgages given	8,700	8,700
Other collaterals given	800	500
Total	**9,500**	**9,200**

[1)] Nominal values of the borrowings, which differ from the amounts recognised in the consolidated balance sheet, measured at amortised cost.

23.3 Guarantees

2019	
Delivery guarantee, Fabrinet Pte Ltd.	USD 800 thousand
2018	
Delivery guarantee, Fabrinet Pte Ltd.	USD 500 thousand

23.4 Legal proceedings and disputes

Optomed was not involved in any legal proceedings nor had any disputes during the financial years 2018-2019.

23.5 Contingencies attaching to government grants

Non-compliance with the conditions attached to the EU Horizon 2020 funding programme may result in, for example, the rejection of ineligible costs or reduction of the grant. Refer to *Note 5. Other operating income* for more detailed information on the grant.

24. Related party disclosures

24.1 Accounting policy

The parent company Optomed Plc's related parties include the following:
— its subsidiaries
— key management personnel, comprising the members of the Board of Directors, CEO and the Group Management Team members
— entities, over which the above-mentioned persons have control, joint control or significant influence
— close family members of the above-mentioned persons
— certain major shareholders (Halma International and Cenova).

Both Halma International Ltd and Cenova (Alnair Investments, Cenova China Healthcare Fund IV and Shanghai Cenova Innovation Venture Fund together) have had an interest exceeding 20% in shares and voting power in the parent company during the financial years 2018-2019. Furthermore, over those years Halma has had two members in the Board of Directors of Optomed Plc and Cenova has had one. Optomed considers that this results in the both shareholders having significant influence over Optomed Plc, as defined under IFRS, and consequently Optomed Plc is an associate to both Halma and Cenova.

The related party transactions disclosed consist of transactions carried out with related parties that are not eliminated in the consolidated financial statements.

24.2 Key management personnel compensation

The amounts disclosed in the tables below represent the expenses recognised in those financial years. Salary amounts include any possible fringe benefits.

In thousands of euro	2019	2018
CEO Seppo Kopsala		
Salaries and other short-term employee benefits	-105	-108
Pension benefits (defined contribution plans)	-22	-20
Share-based payments	-	-
Total	**-127**	**-128**
Group Management Team		
Salaries and other short-term employee benefits	-615	-703
Pension benefits (defined contribution plans)	-125	-113
Share-based payments	-163	-71
Total	**-902**	**-887**
Key management personnel		
Salaries and other short-term employee benefits	-720	-811
Pension benefits (defined contribution plans)	-147	-133
Share-based payments	-163	-71
Total	**-1,029**	**-1,015**

The CEO and the Group Management Team members are entitled to the statutory pension, and the retirement age is determined by the Finnish statutory pension system.

24.3 Transactions with other related parties and outstanding balances

In thousands of euro	Revenues	Trade receivables	Other expenses
2018	3,233	1,594	-74
2019	2,200	1,172	-143

Revenues and trade receivables relate to the major shareholders of Optomed Plc considered to be related parties to the parent company. Refer also to *Note 2.4 Major customers*.

Other expenses consist of consulting fees paid to the Chairman of the Board of Directors.

24.4 Group structure

At December 31, 2019 the Group comprised the following companies.

Subsidiary	Domicile	Ownership interest, %
Optomed Software Oy	Finland	100
Optomed Hong Kong Ltd.	Hong Kong	100
Optomed Medical Consulting (Shanghai) Co. Ltd	China	100
Optomed China Ltd	China	100
Shanghai Optomed Medical Technology Ltd	China	100

The Chinese subsidiary Shanghai Optomed Medical Technology Ltd was closed in early 2020.

25. Events after the end of the reporting period

On 28 January 2020, the company refinanced its bank loans and repaid an amount of EUR 3,173 thousand.

On 3 February 2020, the company announced the proposal of the Nomination board. According to the proposal, the Nomination Board proposes that Seppo Mäkinen, Petri Salonen, Reijo Tauriainen and Jun Wu are re-elected as Board members and Anna Tenstam is elected as a new Board member.

Parent Company's Financial Statements (FAS)

Income statement

	1.1.2019–31.12.2019		1.1.2018–31.12.2018	
REVENUE		**6,432,200.99**		**6,316,325.19**
Other operating income		312,947.83		1,879,227.18
Materials and services				
Raw materials and consumables				
Purchases during the financial year	-3,184,890.04		-3,281,297.24	
Change in inventories	-18,390.16		53,559.24	
External services	-8,104.39	-3,211,384.59	-141,713.70	-3,369,451.70
Personnel expenses				
Wages and salaries	-2,341,781.32		-1,776,050.24	
Social security expenses				
Pension expenses	-404,968.55		-313,689.07	
Other social security expenses	-57,275.34	-2,804,025.21	-74,744.54	-2,164,483.85
Depreciation, amortisation and impairment losses				
Depreciation and amortisation according to plan	-1,201,913.95	-1,201,913.95	-900,283.65	-900,283.65
Other operating expenses		-1,914,680.45		-1,808,575.97
OPERATING PROFIT (LOSS)		**-2,386,855.38**		**-47,242.80**
Financial income and expenses				
From others	2,030.28		633.72	
Interest and other financial expenses				
To group companies (–)	-27,647.01		-4,291.67	
To others (–)	-4,253,538.78	-4,279,155.51	-284,126.59	-287,784.54
PROFIT (LOSS) BEFORE APPROPRIATIONS AND		**-6,666,010.89**		**-335,027.34**
Appropriations				
Group contribution	1,175,474.55	1,175,474.55	0.00	0.00
PROFIT (LOSS) FOR THE FINANCIAL YEAR		**-5,490,536.34**		**-335,027.34**

Balance sheet

	31.12.2019		31.12.2018	
Assets				
NON-CURRENT ASSETS				
Intangible assets				
Development costs	5,098,409.81		5,157,809.73	
Intangible rights	249,653.92		212,279.74	
Other intangible assets	173,426.31	5,521,490.04	140,378.36	5,510,467.83
Tangible assets				
Machinery and equipment	393,534.26		484,654.36	
Other tangible assets	950.00	394,484.26	950.00	485,604.36
Investments				
Holdings in group companies	9,082,863.03		9,082,863.03	
Receivables from group companies	1,033,582.47	10,116,445.50	1,020,130.65	10,102,993.68
TOTAL NON-CURRENT ASSETS		**16,032,419.80**		**16,099,065.87**
CURRENT ASSETS				
Inventories				
Raw materials and consumables	968,727.28		647,141.36	
Finished goods	1,274,559.21	2,243,286.49	243,725.36	890,866.72
Current receivables				
Trade receivables	5,414,257.04		1,136,012.33	
Receivables from Group companies	449,534.95		4,005,906.89	
Other receivables	231,726.10		88,454.40	
Prepayments and accrued income	275,994.16	6,371,512.25	140,226.72	5,370,600.34
Cash in hand and at banks		17,943,853.21	317,252.76	317,252.76
TOTAL CURRENT ASSETS		**26,558,651.95**		**6,578,719.82**
Total assets		**42,591,071.75**		**22,677,785.69**

Balance sheet

	31.12.2019		31.12.2018	
Equity and liabilities				
EQUITY				
Share capital		80,000.00		18,501.20
Share premium		503,699.60		565,198.40
Reserve for invested non-restricted equity		41,255,042.75		18,548,999.39
Retained earnings		-8,929,606.29		-8,594,578.95
Profit (loss) for the financial year		-5,490,536.34		-335,027.34
TOTAL EQUITY		**27,418,599.72**		**10,203,092.70**
LIABILITIES				
Non-current				
Borrowings from financial institutions	8,108,703.28		9,690,590.28	
Liabilities to Group companies	1,374,060.40	9,482,763.68	800,000.00	10,490,590.28
Current				
Borrowings from financial institutions	1,825,501.77		524,917.39	
Advances received	66,649.30		13,741.90	
Trade payables	1,528,295.26		710,374.60	
Liabilities to group companies	31,938.68		4,291.67	
Other payables	84,635.83		57,566.17	
Accruals and deferred income	2,152,687.51		673,210.98	1,984,102.71
TOTAL LIABILITIES		**15,172,472.03**		**12,474,692.99**
Total equity and liabilities		**42,591,071.75**		**22,677,785.69**

Cash flow statement

	1.1.2019–31.12.2019	*1.1.2018–31.12.2018*
Cash flows from operating activities:		
Profit (loss) before appropriations and taxes (+/–)	**-5,490,536.34**	**-335,027.34**
Adjustments (+/–):		
Depreciation and amortisation according to plan	1,201,913.95	900,283.65
Unrealised exchange rate gains and losses	-25.65	0.00
Financial income and expenses	4,279,155.51	287,784.54
Other adjustments	0.00	-69,336.42
Cash flows before change in working capital	-9,492.53	783,704.43
Change in working capital:		
Change in current operating receivables increase/decrease	-1,000,911.91	-1,320,910.73
Change in inventories (increase / decrease)	-1,352,419.77	-51,263.55
Change in non-interest bearing liabilities (increase / decrease)	2,372,738.78	9,438.41
Net cash from operating activities before financing items and taxes	9,914.57	-579,031.44
Interests paid and payments for financing costs for operating activities	-4,247,380.81	-292,157.23
Interests received for operating activities	507.78	459.94
Net cash from operating activities	**-4,236,958.46**	**-870,728.73**
Cash flows from investing activities:		
Acquisition of intangible and tangible assets (–)	-1,135,267.88	-1,224,467.38
Acquisition of other investments (–)	0.00	-9,088,309.49
Net cash used in investing activities	**-1,135,267.88**	**-10,312,776.87**
Cash flows from financing activities:		
Proceeds from equity increases against payment	22,706,043.36	5,500,000.00
Proceeds from current loans and borrowings	753,144.82	0.00
Repayment of current loans and borrowings (–)	-460,387.04	-49,118.15
Proceeds from non-current loans and borrowings	0.00	5,567,166.82
Repayment of non-current loans and borrowings (–)	0.00	4,362.00
Net cash from financing activities	**22,998,801.14**	**11,022,410.67**
Change in cash and cash equivalents, increase (+) / decrease (–)	**17,626,574.80**	**-161,094.93**
Cash and cash equivalents at January 1	317,252.76	478,347.69
Cash and cash equivalents at December 31	**17,943,827.56**	**317,252.76**

Accounting principles for financial statements

The financial statements of Optomed Plc are prepared in accordance with the Finnish Accounting Standards.

Valuation and recognition principles and methods

Valuation of non-current assets

Cost of intangible and tangible assets recognised are carried at cost less depreciation and amortisation according to plan. Cost comprises variable expenditures arising from purchasing and manufacturing. Any grants received are accounted for as deductions to the cost. Depreciation and amortisation according to plan is determined based on the useful lives of the assets, on a straight-line basis.

The depreciation / amortisation periods are as follows:
Intangible assets 5 - 10 years.
Machinery and equipment 3 – 6 years

The cost for those assets under non-current assets with probable useful lives of less than 3 years as well as minor acquisitions (less than EUR 850) are fully expensed in the year they are acquired.

Valuation of inventories

Inventories are carried at the lowest of cost, replacement cost and probable selling price, in accordance with the FIFO principle. Fixed overheads of purchases and manufacturing are allocated to the cost of inventories, in addition to variable expenditures.

Valuation of financial instruments

Financial instruments are valued at the lower of cost and probable value.

Recognition of development costs and other long-term expenditures

The company has capitalised development costs related to development of new products in accordance with Chapter 5, Section 8 of the Finnish Accounting Act. The capitalised development costs comprise personnel costs incurred in development activities and other costs necessary to prepare the asset to be capable of operating in the manner intended. Development costs are amortised on a straight-line basis over their estimated useful lives (10 years).

Change in manner of presentation of income statement or balance sheet

The company has changed the manner of presentation in respect of the item Change in inventories. This item was previously presented separately. Now this item is shown under Purchases during the financial year. The change has no material impact on assessing the company's earnings and financial position.

Accounting principles for cash flow statement

The cash flow statement is prepared in accordance with the related guideline issued by the Finnish Accounting Board (KILA), dated 30 January 2007. Cash flows from operating activities are presented using the indirect method.

Notes to income statement

Revenue	*1.1.2019–31.12.2019*	*1.1.2018–31.12.2018*
Geographical breakdown		
Finland	8,273.00	59,255.36
EU	2,270,868.40	1,900,740.20
Non-EU countries	4,153,059.59	4,356,329.63
	6,432,200.99	**6,316,325.19**
Other operating income		
Government grants received	165,603.50	1,149,771.51
Group administrative services	138,366.29	721,771.49
Other income items	8,978.04	7,684.18
	312,947.83	**1,879,227.18**
Materials and services		
Materials and consumables		
Purchases during the financial year	-3,184,890.04	-3,281,297.24
Change in inventories	-18,390.16	53,559.24
External services	-8,104.39	-141,713.70
	-3,211,384.59	**-3,369,451.70**
Notes on personnel		
Average number of employees during the financial year	49	49
Average number of employees during the financial year	49	49
Wages and salaries and pension expenses for the financial year		
Wages and salaries	-2,341,781.32	-1,776,050.24
Pension expenses	-404,968.55	-313,689.07
Other social security expenses	-57,275.34	-74,744.54
	-2,804,025.21	**-2,164,483.85**

Management compensation	*1.1.2019–31.12.2019*	*1.1.2018–31.12.2018*
Total compensation of CEO and Board of Directors	-218,138.20	-169,184.90
Depreciation, amortisation and impairment losses		
Depreciation and amortisation according to plan	-1,201,913.95	-900,283.65
	-1,201,913.95	**-900,283.65**
Other operating expenses		
Administrative expenses	-200,132.15	-231,571.72
Phone, communication and office expenses	-29,525.29	-35,251.09
Marketing expenses	-171,357.61	-149,376.43
Travel expenses	-327,136.60	-312,196.42
Entertaining and representation expenses	-17,718.27	-3,899.86
Other expenses	-1,168,810.53	-1,076,280.45
	-1,914,680.45	**-1,808,575.97**
Auditor's fees		
Audit fees	-84,599.89	-6,425.00
Tax advisory services	-23,900.00	-4,650.00
Other services	-467,615.65	-114,377.42
	-576,115.54	**-125,452.42**
Financial income and expenses		
Other interest and financial income	2,030.28	633.72
Total interest and financial income	2,030.28	633.72
Total other interest and financial income	**2,030.28**	**633.72**
Other interest and financial expenses		
To Group companies	-27,647.01	-4,291.67
To others	-4,253,538.78	-284,126.59
Total interest and financial expenses	**-4,281,185.79**	**-288,418.26**

Other interest and financial expenses include IPO expenses (initial public offering), totaling EUR 3,917,991.86.

Total financial expenses	**-4,281,185.79**	**-288,418.26**
Total financial income and financial expenses	**-4,279,155.51**	**-287,784.54**

Notes to assets

Amortisation period for capitalised developments costs

Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use. The company capitalises such costs when all the following criteria are met:

— Optomed can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale.
— Optomed intends to complete the intangible asset and use or sell it.
— Optomed is able to demonstrate how the intangible asset will generate probable future economic benefits.
— Optomed has adequate technical, financial and other resources available to complete the development and to use or sell the intangible asset
— Optomed is able to measure reliably the expenditure attributable to the intangible asset during its development

Capitalised development costs comprise all directly attributable costs (mainly labour) necessary to prepare the asset to be capable of operating in the manner intended. Optomed has also:
— capitalised borrowing costs arisen from government loans granted for development purposes, and
— deducted an applicable amount of major government grants received for development activities from the carrying amount.
Development expenditure that was initially expensed is not capitalised at a later date. Development costs are amortised over their estimated useful life (10 years).

Amortisation period for capitalised intangible rights and other non-current expenditures

An intangible asset is recognised only if it is probable that the expected future economic benefits that are attributable to the asset will flow to Optomed, and the cost of the asset can be measured reliably. All other expenditure is expensed as incurred. The amortisation periods for intangible rights are as follows:

IT software	**5 years, straight-line**
IT software licenses	5 years, straight-line
Patents	10 years, straight-line
Brands	10 years, straight-line

Inventories	***Dec 31, 2019***	***Dec 31, 2018***
Raw materials and consumables	968,727.28	647,141.36
Finished goods	1,274,559.21	243,725.36
	2,243,286.49	**890,866.72**

Breakdown of non-current assets

Intangible assets	**Development costs**	**Intangible rights**	**Other intangible assets**	**Total**
Cost at January 1, 2019	7,338,823.45	281,798.42	150,603.35	7,771,225.22
Additions	786,625.78	78,217.40	77,538.28	942,381.46
Cost at December 31, 2019	8,125,449.23	360,015.82	228,141.63	8,713,606.68
Accumulated amortisation and impairment				
Losses at January 1, 2019	2,181,013.72	69,518.68	10,224.99	2,260,757.39
Amortisation for the financial year 2019	846,025.70	40,843.22	44,490.33	931,359.25
Accumulated amortisation and impairment				
Losses at December 31, 2019	3,027,039.42	110,361.90	54,715.32	3,192,116.64
Carrying amount at December 31, 2019	**5,098,409.81**	**249,653.92**	**173,426.31**	**11,905,723.32**
Carrying amount at December 31, 2018	5,157,809.73	212,279.74	140,378.36	10,031,982.61

Tangible assets	**Machinery and equipment**	**Total**
Cost at January 1, 2019	1,014,489.45	1,014,489.45
Additions	179,434.36	179,434.36
Cost at December 31, 2019	1,193,923.81	1,193,923.81
Accumulated depreciation and impairment losses at January 1, 2019	529,835.09	529,835.09
Depreciation for the financial year	270,554.46	270,554.46
Accumulated depreciation and impairment losses at December 31, 2019	800,389.55	800,389.55
Carrying amount at December 31, 2019	**393,534.26**	**393,534.26**
Carrying amount at December 31, 2018	484,654.36	484,654.36
Carrying amount of production machinery and equipment at December 31, 2019	319,202.12	
Carrying amount of production machinery and equipment at December 31, 2018	263,928.33	

	Investments		
	Holdings in Group companies	**Receivables from Group company**	**Total**
Cost at January 1, 2019	9,082,863.03	1,020,130.65	10,102,993.68
Additions	0.00	13,451.82	13,451.82
Cost at December 31, 2019	**9,082,863.03**	**1,033,582.47**	**10,116,445.50**
Carrying amount at December 31, 2019	**9,082,863.03**	**1,033,582.47**	**10,116,445.50**
Carrying amount at December 31, 2018	9,082,863.03	1,020,130.65	10,102,993.68

Holdings in other entities

	Holding, %
Optomed Software Oy, Espoo	100
Optomed Hong Kong Limited, China	100
Optomed China Ltd, China	100
Shanghai Optomed Medical Technology Ltd, China	100

The Chinese subsidiary Shanghai Optomed Medical Technology Ltd was closed in early 2020.

Breakdown of receivables

Non-current receivables	*31.12.2019*	*31.12.2018*
Receivables from group companies		
Loan receivables	602,295.25	601,586.01
Other receivables	431,287.22	418,544.64
Total	1,033,582.47	1,020,130.65
Total non-current receivables	**1,033,582.47**	**1,020,130.65**

Current receivables	*31.12.2019*	*31.12.2018*
Receivables from group companies		
Trade receivables	3,793,558.29	4,005,906.89
Other receivables	449,534.95	0.00
Total	**4,243,093.24**	**4,005,906.89**
Receivables from others		
Trade receivables	1,620,698.75	1,136,012.33
Other receivables	231,726.10	88,378.29
Prepayments and accrued income	275,994.16	140,226.72
Total	2,128,419.01	1,364,617.34
Total current receivables	**6,371,512.25**	**5,370,524.23**

Equity

Restricted equity	Dec 31, 2019	Dec 31, 2018
Share capital at January 1	18,501.20	18,501.20
Bonus issue	61,498.80	0.00
Share capital at December 31	**80,000.00**	**18,501.20**
Share premium at January 1	565,198.40	565,198.40
Bonus issue	-61,498.80	0.00
Share premium at December 31	**503,699.60**	**565,198.40**
Total restricted equity	**583,699.60**	**583,699.60**
Unrestricted equity		
Reserve for invested non-restricted equity at January 1	18,548,999.39	13,048,999.39
Share issue	22,706,043.36	5,500,000.00
Reserve for invested non-restricted equity at December 31	**41,255,042.75**	**18,548,999.39**
Retained earnings at January 1	-8,929,606.29	-8,594,578.95
Retained earnings at December 31	**-8,929,606.29**	**-8,594,578.95**
Profit (loss) for the financial year	-5,490,536.34	-335,027.34
Total unrestricted equity	**26,834,900.12**	**9,619,393.10**
Total equity	**27,418,599.72**	**10,203,092.70**

Distributable unrestricted equity	31.12.2019	31.12.2018
Calculation of distributable funds in equity		
Profit for previous financial years	-8,929,606.29	-8,594,578.95
Profit (loss) for financial year	-5,490,536.34	-335,027.34
Reserve for invested non-restricted equity	41,255,042.75	18,548,999.39
Capitalised development costs	-5,098,409.81	-5,157,809.73
	21,736,490.31	**4,461,583.37**

Notes to equity and liabilities

Non-current liabilities	*31.12.2019*	*31.12.2018*
Borrowings from financial institutions	8,108,703.28	9,690,590.28
Other non-current liabilities	1,374,060.40	800,000.00
	9,482,763.68	**10,490,590.28**
Liabilities that mature later than within five years		
Borrowings from financial institutions	686,729.00	1,243,422.24
	686,729.00	**1,243,422.24**
Current liabilities		
Liabilities to Group companies		
Trade payables	20,459.75	0.00
Other payables	31,938.68	4,291.67
	52,398.43	**4,291.67**
Liabilities to others		
Borrowings from financial institutions	1,825,501.77	524,917.39
Advances received	66,649.30	13,741.90
Trade payables	1,500,648.67	710,374.60
Other payables	91,822.67	57,566.17
Accruals and deferred income	2,152,687.51	673,210.98
	5,637,309.92	**1,979,811.04**
Major items under Accruals and deferred income		
Wages and salaries with related social contributions	570,844.10	467,322.04
Interests	14,488.56	15,537.92
Other items	1,567,354.85	190,351.02
	2,152,687.51	**673,210.98**

Collaterals and commitments

Liabilities secured under company mortgages given by Optomed	*31.12.2019*	*31.12.2018*
Borrowings from financial institutions	6,697,777.28	7,014,444.32
Company mortgages given	8,700,000.00	8,700,000.00
Total company mortgages	**8,700,000.00**	**8,700,000.00**
Pension obligations		
The pension obligations of the company are insured in external pension insurance companies. Pension obligations are fully covered.		
Other commitments		
Lease commitments		
Payable in next financial year	82,960.32	82,960.32
Payable later	0.00	0.00
Total	**82,960.32**	**82,960.32**
Payable under lease contracts		
Payable in next financial year	1,008.00	1,008.00
Payable later	924.00	1,932.00
	1,932.00	**2,940.00**

Other off-balance sheet commitments

The company has obligations related to the future ERP software license charges totaling EUR 93,963.96.

The company has an obligation related to the delivery guarantee in respect of Fabrinet Pte Ltd., USD 800,000.00.

The secured borrowings contain financial covenants. These covenants relate to the solvency and liquidity of the company. Covenant breach may result in rise in financial expenses or termination of the borrowings. As per management the company was in compliance with the covenants and compliance is monitored.

Signatures to the Financial Statements and Board of Director’s Report

Espoo, February 27, 2020

Petri Salonen
Chairman of the Board

Matthew Hallam
Board Member

Seppo Mäkinen
Board Member

Ingo Ramesohl
Board Member

Reijo Tauriainen
Board Member

Anders Torstensson
Board Member

Jens Umehag
Board Member

Jun Wu
Board Member

Seppo Kopsala
CEO

The Auditor’s Note

A report on the audit performed has been issued today.
Oulu, February 28, 2020 KPMG Oy Ab

Tapio Raappana
Authorised Public Accountant, KHT